

JPRS-CAR-94-020  
30 March 1994



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# ***JPRS Report***

# **China**

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## CONTENTS

30 March 1994

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

Economists View Difficulties in 1994 [WEN HUI BAO 4 Jan] .....	1
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#### PROVINCIAL

Heilongjiang Enterprise Reform, Technical Upgrading [HEILONGJIANG RIBAO 10 Jan] .....	2
Shanghai Enterprises To Change Management System [WEN HUI BAO in Chinese 18 Jan] .....	4
Shanghai Predicts Economic Growth in 1994 [SHANGHAI GONGYE JINGJI BAO 4 Jan] .....	5

#### FINANCE, BANKING

Years of Deficits in Perspective, Solutions [JINGJI LILUN YU JINGJI GUANLI 28 Nov] .....	7
--	---

#### INDUSTRY

Yang Peixin on Shortage of Funds for Industry [JINGJI CANKAO BAO 25 Jan] .....	12
Textile Output in February [CEI Database] .....	14
Ministry Issues Feb Output for Top 10 Steel Makers [CEI Database] .....	14
Bureau Issues Jan Raw Materials Output Figures [CEI Database] .....	14

#### SMALL-SCALE ENTERPRISES

Hubei Decision on Developing Private Economy [HUBEI RIBAO 7 Jan] .....	14
Mistakes of Private Economy [ZHONGGUO XINXI BAO 12 Jan] .....	18

#### TRANSPORTATION

High-Speed Train Project Planning Underway [ZHONGGUO XINXI BAO 15 Dec] .....	19
--	----

#### AGRICULTURE

Analysis of Jiangxi Rural Labor [NONGMIN RIBAO 14 Jan] .....	21
Survey of Shanxi Peasant Burdens [NONGMIN RIBAO 16 Dec] .....	23
CASS Report on Grain System Reform, Issues .....	26
After Grain Market Deregulation [JINGJI CANKAO BAO 12 Jan] .....	26
Reforms in Price System [JINGJI CANKAO BAO 12 Jan] .....	27
Establishing Grain Price Stabilization [JINGJI CANKAO BAO 12 Jan] .....	28
Regional Specialization of Farming [JINGJI CANKAO BAO 12 Jan] .....	29
Grain Production Decisionmaking [JINGJI CANKAO BAO 12 Jan] .....	32
Heilongjiang Grain Stocks [HEILONGJIANG RIBAO 1 Feb] .....	33
Jiangxi Improves Livestock Industry [JIANGXI RIBAO 14 Feb] .....	33
Jilin Corn Export Plan for 1994 [JILIN RIBAO 31 Jan] .....	34
Military Grain Supply System To Change [JINGJI RIBAO 5 Mar] .....	34
Liaoning 1993 Farmer Income [LIAONING RIBAO 1 Mar] .....	34
Anhui Seed Area [ANHUI RIBAO 14 Feb] .....	34
Zhejiang Increases Grain Procurement Prices [ZHONGGUO XINXI BAO 2 Feb] .....	34
Shandong, Liaoning Wheat Area .....	34
Shandong Wheat Area [DAZHONG RIBAO 4 Feb] .....	34
Liaoning Wheat Area [LIAONING RIBAO 12 Mar] .....	34

Improving Heilongjiang Farm Exports [HEILONGJIANG RIBAO 26 Jan] .....	34
Heilongjiang Liquor Industry Faces Problems [HEILONGJIANG RIBAO 3 Feb] .....	35
Guangxi, Shandong 1994 Crop Area .....	36
Guangxi Crop Area [XINAN JINGJI RIBAO 6 Mar] .....	36
Shandong Crop Area [SHANDONG JINGJI RIBAO 9 Feb] .....	36

## SOCIAL

Newspaper Reviews Literary Efforts in 1993 [ZHONGGUO QINGNIAN BAO 20 Jan] .....	37
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## REGIONAL

### NORTHWEST REGION

History of Islamism, Turkicisms in Xinjiang [XIYU YANJIU Jan] .....	42
Xinjiang Miners Distressed Over Low Prices [XINJIANG RIBAO 26 Jan] .....	46
Xinjiang Declining Cotton Industry Analyzed [XINJIANG RIBAO 2 Jan] .....	47
Xinjiang Fine Wool Industry Declines [XINJIANG RIBAO 2 Jan] .....	48

## HONG KONG

White Paper Termed 'Piece of Propaganda' [EASTERN EXPRESS 28 Feb] .....	50
Editorial on White Paper on Sino-British Talks [HONGKONG STANDARD 25 Feb] .....	51
Editorial Sees 'Hope' on Sino-British Cooperation [SOUTH CHINA SUNDAY MORNING POST 27 Feb] .....	51
Editorial Praises Legislators' Approval of Reforms [SOUTH CHINA MORNING POST 25 Feb] .....	52
Hong Kong Economic Report 18 Feb-4 Mar [HSIN PAO 20 Feb, etc] .....	52
Hong Kong Economic Report 5-19 Mar [Beijing ZHONGGUO XINWEN SHE 5 Mar, etc] .....	55



## NATIONAL AFFAIRS, POLICY

### Economists View Difficulties in 1994

94CE0322A Shanghai WEN HUI BAO 4 Jan 94 p 1

[Article by WEN HUI BAO reporters Wang Jienan (3769 2212 0589) and Lu Zhengming (7120 2973 2494) from Beijing: "1994: A Battle Has Begun To Tackle the Most Difficult Problems in Reform; The Key Solution Is To Establish New Systems—Prospects of This Year's Economic Reform Viewed by Economists in the Capital"]

[Text] The year 1994 will be a "foundation-laying" year for the edifice of the socialist market economy in China. According to economists, in the 1980's, which were marked by the single traditional planned economy, any reforming effort, even if superficial, could produce some results. In contrast, the reform in the 1990's is conducted in a double-track environment, where it is necessary to coordinate the reform measures and deepen the reform drive under the friction of two coexisting systems. Compared with the former, the reform in the 1990's is harder and has greater resistance. As economists point out, it is confronted with striking difficulties:

One of the difficulties is the placement of surplus personnel laid off by enterprises, especially old enterprises—a problem caused by "unemployment during the transitional period" in the reform of the enterprise system. Economists opine that the transformation of operational mechanisms in state-owned enterprises and the establishment of a modern enterprise system both mean the acceleration of job rearrangement, which will inevitably result in the layoff of some employees. It is, therefore, necessary to make an unremitting effort to build a job market. However, under the present circumstances where work units distribute public housing, retirement pension, and price subsidy to their employees and pay their medical and health-care bills and where an unemployment relief fund system has yet to be established by the government, the following questions have arisen: How should we, on the one hand, solve the problem of overstaffing of state-owned enterprises through the bankruptcy procedure or by the mechanism of keeping the superior and eliminating the inferior and, on the other hand, properly place the surplus personnel and ensure their well-being? How should we speed up the socialization and marketization of welfare distribution while accelerating the transformation of operational mechanisms in enterprises? These are difficult questions that must be solved in the 1994 reform.

Economists hold that if we continued to take the "double-track approach," that is, "a new method for new people and the old method for old people," it would take several generations' time to solve the above questions. That could not meet the needs of building a market economy. On the other hand, it would be a formidable political task to drastically adjust the present interest pattern. Besides, our country has not fostered sufficient economic strength for the institution of an extensive,

equitable, and socialized security system. In view of this, all that we can do is to make some transformations in mechanisms on the basis of the reality. As far as we know, departments concerned are presently contemplating a package plan to solve the problems. With regard to housing, efforts will be made to privatize housing units as soon as possible. To solve the unemployment problem, apart from the expansion and improvement of unemployment insurance, new outlets and diversified placement measures will be sought for those employees laid off by enterprises. Principal proposals in this regard are making all-out efforts to develop employment agencies and improve and perfect the employment service system, beefing up job training and job-transfer training to improve workers' quality, energetically promoting service enterprises and various tertiary industries to create more job opportunities, and establishing a policy to encourage people to work in township enterprises, the "three-kinds of foreign-funded" enterprises, and private enterprises. Meanwhile, efforts will be made to reduce the current administrative restrictions on capital raising and to simplify the company registration procedure so that laid-off employees can raise funds or borrow loans to open stores or workshops and act as their own bosses. In so doing, they can also hire some surplus personnel. This will provide an outlet for the extra employees laid off by state-owned enterprises.

Another difficulty concerns the relationship between central and local authorities. Economists are of the opinion that reform efforts over the past 15 years have done away with the over-centralized system and made it possible to delegate power to enterprises and local governments, thus arousing to a great extent the initiative at the local level. However, they say, these efforts have also resulted in the over-expansion of local government power. In the past reforms, local governments often showed a greater enthusiasm than central government departments. While storming the old systems, local governments also unwittingly impacted the statistical and reporting systems and even the basic financial work discipline, especially in the fields of banking, financial management, and taxation. This situation, if allowed to continue, will affect the authenticity of the information on which the state's macroeconomic management is based. Yet the fact is that, as the local party and government election systems develop, local leaders will continue to take the development of their local economic and welfare programs as their basic goal. At present, three problems on local government activities deserve attention: one, counter-regulatory action affecting the higher level; two, direct interference in the work of the lower level; and three, blockades imposed upon peers at the same level.

According to economists, a pure tax revenue sharing system can only solve the question of tax revenue distribution between the central and local governments. It can in no way serve the purpose of redefining the government functions to meet the needs of the market



economy. We should combine the reform from the bottom up with the reform from the top down and beef up the central government's guidance for the reform as soon as possible. It is imperative to clearly define the administrative powers of the central and local governments and take this as an important task in reforming the government functions. The objective should be that authority for currency issuance and macroeconomic regulation and control is held by the central government, while administrative powers closely related to local work targets are by and large delegated to local governments. Examples of the latter are local finances, transportation, urban construction, housing reform, social security, environmental protection, education, and rectification and improvement of loss-incurring enterprises. Meanwhile, efforts should be made to adjust those functions inappropriate for local governments. The only direct link that the two levels of government should maintain with enterprises is taxation. All government regulatory activities must be conducted through the intermediary of law or market.

The third difficult problem lies in financial reform, a task closely connected with the question of interests of the government versus enterprises and of the central government versus local governments. An urgent question in this regard, say economists, is how to change, in accordance with the needs of the market economy, the present practice that the government deals directly with matters of finances, banking, and interest rates. It is learned that the central authorities have decided to reorganize the specialized state banks into state commercial banks, beginning 1994. The reorganized banks will operate in line with modern commercial banking practice and will be fully responsible for their respective fund mobility and payment ability. Meanwhile, the People's Bank of China will enforce the nation's monetary policy independently under the leadership of the State Council. It will assume centralized control over the issuance and basic turnover of the currency and regulate the scale of loans. The principal goal of the monetary policy is to maintain currency stability.

With respect to the prospects and difficulties of the 1994 reform, economists say that China's reform has entered the most difficult, challenging, and hopeful stage where efforts must be made to tackle the hardest problems. Whether we can break with the old traditions or not has a great bearing on the success or failure of this reform. Now, as China's reform is developing in depth, those engaged in the work of reform should, as well, raise their awareness of the need to reform themselves. Also, it is imperative to guard against the distortion of the reform by vested interests either deliberately or unknowingly. Recently, the central leadership has pointed out that only through reform is it possible to grasp the "high technology" required for the swift running of the economy, and the new systems are exactly such "high technology." We must get a good grasp of that "high technology" and do our best to drive the "express train."

## PROVINCIAL

### Heilongjiang Enterprise Reform, Technical Upgrading

94CE0338A Harbin HEILONGJIANG RIBAO  
in Chinese 10 Jan 94 p 2

[Article: "New Reform Moves—Promoting Reform of the Property Right System, Accelerating Upgrading of Skills—Provincial Economic Committee Chairman Yu Xi'ou Responds to Questions of This Paper's Reporters on Enterprise Reform and Upgrading Technology"]

[Text] Question: Faced with complete reform of the economic system, overall advancement, and breakthroughs at key points, how will Heilongjiang's industrial economy be arranged in 1994?

Answer: In 1994 Heilongjiang will be faced with very good opportunities for reform and development and will encounter unprecedented challenges. We will concentrate on doing a good job with large- and medium-sized enterprises and stress doing a good job of handling enterprise reform and upgrading. By reform we will free up current productive capacity and through upgrading we will develop new productivity. The organic integration of the dual tactics of reform and upgrading simultaneously employed will lay a firm foundation for the establishment of a modern enterprise system and promote sustained, coordinated, and sound development of the industrial economy.

Question: Intensifying enterprise reform is one of the keys to industrial economic tasks throughout the province in 1994. So, what is the thinking on enterprise reform?

Answer: The overall thinking on Heilongjiang's enterprise reform in 1994 is: To lay a foundation of enterprise operational autonomy closely centered on doing a good job with the core sector, large- and medium-sized state enterprises, fully promoting reform of the property rights system, and striving to achieve progressive breakthroughs. We will fundamentally convert the mechanisms of large- and medium-sized state enterprises that are prepared and establish a modern enterprise system suited to the demands of a market economy. At the same time, in accordance with the requirements for structuring a modern enterprise system, we will accelerate comprehensive reform of the macroeconomic control system, the market system, and the social security system. We also should speed up progress on converting the internal mechanisms of enterprises and improvement of the external environment.

Question: In recent years Heilongjiang has adopted several policy measures to do a good job on large- and medium-sized state enterprises. What new plans are there in this respect for 1994?

**Answer:** In 1994 we will adopt some new measures based on the new situation and tasks that reform and development are facing and speed up progress on large and medium-sized state enterprises.

First we will actively and safely promote a modern enterprise system. In 1994 the state is selecting 100 large- and medium-sized enterprises to establish an experimental modern enterprise system. Heilongjiang is recommending three enterprises, the Qiqihar Steel Mill, the Jiamusi Paper Mill, and the Heilongjiang Polyester Factory, to the State Economic and Trade Commission to participate in the national experiment. At the same time, the province is selecting 15-20 enterprises to establish an experimental modern enterprise system at the province level. In 1994 we also will expand the scope of the experimental stock system and select 100 large- and medium-sized state enterprises to conduct the experiment, concentrating on selecting 60 of these large- and medium-sized state enterprises that are relatively well managed and have upgraded technology.

Second, continue to intensify the implementation of Regulations on Converting Enterprise Operating Mechanisms and the Regulations on Supervision and Control. The provincial economic committee with relevant departments can strictly investigate and prosecute violations of the legitimate rights of enterprises. We should formulate detailed rules and regulations for Heilongjiang to implement the Regulations on Supervision and Control of state assets and institute supervision and control of the state assets of Heilongjiang's experimental enterprises and stress the implementation of the responsibility system for asset management and the experimental appointment of a control commission.

Third, we should accelerate enterprise restructuring and improve the internal mechanisms of enterprises. First, we should accelerate the reform of the three enterprise systems. Second, we should increase efforts to strip away the logistics services system. Third, we should resolutely institute bankruptcy toward enterprises that have been losing for a long time and have no hope of turning around the losses or funds to offset their debts. In 1994 the state will set aside 7 billion yuan in bad debt reserves to be used as loans to cancel the bad debts of bankrupt enterprises. Heilongjiang will actively use this opportunity to plan the bankruptcy of about 80 state industrial enterprises (two to three of these large- or medium-sized enterprises).

Fourth, in accordance with the demands of the market economy we should enhance enterprise management and administration. Presently quite a few enterprises are striving to convert their mechanisms. But a considerable number of enterprises have lax internal administration and management is "slipping." In 1994 the state will institute "convert mechanisms, stress administration, practice internal skills, and increase efficiency," and "in-depth economy results" activities. As the state launches these activities, Heilongjiang should continue to stress activities to improve quality and decrease

consumption and tap potential and increase efficiency targeted at "100 Red Flag" enterprises and, based on economic returns, set up an evaluation to publicize the top five in 110 industries throughout the province.

Fifth, reduce unreasonable enterprise burdens. In accordance with relevant state stipulations on credit interest owed on allocations changed to loans, economic committees at every level with relevant departments can do a good job on the remaining credit interest owed on the 1.46 billion yuan Heilongjiang industrial enterprise allocations changed to loans between 1983 and 1985. Using the base of the remaining credit interest owed on state allocations changed to loans, we should select ten cities and by category and by time period explore experimental opportunities for concrete solutions and strive to include Harbin in the list. We also should have multiple channels for supplementing enterprise circulating funds and permitting large- and medium-sized state enterprise, based on 1 percent of their sales income, to draw their own circulating funds, be exempt from income taxes, and figure it in their production costs. Enterprises that have not recently submitted after-tax profits should draw 50 percent of their retained profits to be used to supplement circulating funds. We should once again appraise enterprise adoption of medium-term loans within the quota and give short-term loans outside the quota.

**Question:** Reform of Heilongjiang's small state industrial enterprises has made a good start. How will this be advanced in 1994?

**Answer:** In recent years, especially in the last three years, Heilongjiang's small state industrial enterprises have remained in a slump, holding back industry throughout the province. Based on the provincial party committee and provincial government plan, localities have generally picked up the pace of small state enterprise reform consisting mainly of reform of the property rights system. The provincial economic committee, on the basis of surveys and research, top to bottom integration, and one factory one policy, has formulated the plan for the Reform of Small Heilongjiang State Enterprises. The plan's overall goal is to essentially complete reform of 2,585 small state industrial enterprises throughout the province in about two years, concentrating on reform of the property rights system, to lay a good foundation for the transition to a modern enterprise system and move small state industrial enterprise development to the fast track. According to the plan, reform of small state industrial enterprises will take thirteen specific forms: a stock system; a stock cooperative system; "grafting" restructuring; leasing operations; "one enterprise, multiple systems," asset contracts, participation in and organization of enterprise groups, mergers, selling off assets, stripping off operations, shutting down, bankruptcy, and other types of reform. We already have "tallied" the 2,585 enterprises according to the thirteen forms described above. Beginning in 1994, in accordance with the plan, we will put all of our efforts into advancing reform of the property rights system of small state



industrial enterprises and in that year we will complete the reform of 1,210 enterprises.

**Question:** Since upgrading enterprise technology is as important as reform, what new measures will be taken in 1994 to promote the technical upgrading of enterprises?

**Answer:** Although in recent years Heilongjiang has increased investment in upgrading technology, the rate of increase has always been less than the national average and the gap with some provinces has become greater and greater. As of now, only 40 percent of Heilongjiang's large and medium-sized enterprises are conducting systematic upgrading and have some upgrading. If this situation does not change, it will be very difficult for Heilongjiang's industry to make great progress. In 1994 we will speed up the promotion of the upgrading of enterprise technology in three respects.

First, explore new avenues for reforming the investment system for upgrading Heilongjiang technology. Based on Heilongjiang's situation, the area of investment in technology upgrading is divided into two categories. One category is policy investments, which is related to the national economy and people's livelihood. They have good social benefits, but small benefit to enterprises. Their investment cycle is long and risks are great. They are mainly supported by policy and their source of funds comes mainly from policy investments and loans. Another category is commercial investments. Their economic returns are good and they are able to pay back principle and interest on loans. Their source of funds comes mainly from commercial loans or financing. Reform of the investment system for upgrading technology concentrates on doing three tasks well: The first is to select state policy investments for technology upgrading projects in Heilongjiang's industries with long investment cycles and great risks such as transportation, energy, and defense; the five major mainstay industries and ten major projects; and current enterprises that are applying new high technology upgrades, and strive for the state's opening up bank support. The second is to enhance macroeconomic controls on technology upgrades and guide the orientation of investment funds. The third is to transition from a project approval system to a project filing system. Beginning in 1994, except for special state loans for key projects and major provincial technology upgrades for which state loans are requested, the provincial economic committee will no longer approve general projects and as a rule it will be changed to a filing system.

Second, coordinate and integrate technology upgrading with reform of the enterprise system and external economic technology and broaden channels for funds and increase investment returns. First, rely on key projects and promote reform of the stock system and, based on a good grasp of the base of the experimental reform of the stock system in such enterprises as Qiqihar Steel Mill, Heilongjiang Polyester Factory, Hualin Rubber, Jiamusi Paper Mill, and Yichun's Guangming Furniture, select some enterprises that have key technology upgrade tasks

to actively and safely conduct stock system reform. Second, step up the use of foreign investment "grafts" to upgrade current enterprises and continue to implement the plan to use foreign investment to upgrade 100 large- and medium-sized enterprises and stress the implementation of matching domestic funds for projects solicited from Hong Kong and Korean businesses and organize mature projects by levels for activities directed at different countries to solicit businesses and introduce funds and convene the Mudan River "grafted" upgrading on-site exhibit.

Third, concentrate efforts on especially stressing major technology upgrading projects. In 1994 Heilongjiang plans to arrange for investment in technology upgrading on the scale of 4.5 billion yuan, a 28 percent increase over the previous year, and concentrate on 37 key projects such as Jiamusi Paper and Qiqihar Steel. In 1994, 701 projects will go into production or achieve production and they are expected to earn a value of output of 3.34 billion yuan and 850 million yuan in profit taxes, and earn US\$38.04 million in foreign exchange.

#### **Shanghai Enterprises To Change Management System**

94CE0323B Shanghai WEN HUI BAO in Chinese  
18 Jan 94 p 1

[Article by reporter Sun Zhonglian (1327 0022 6647): "Shanghai Sets This Year's Thorough Reform Goals for Its Industrial Enterprises: 600 State-owned Enterprises To Adopt New System—Different Types of Enterprises To Adopt Different Measures, So That "The Big Get Stronger and the Small Become More Versatile, the Good Are Organized and the Bad Are Eliminated"]

[Text] What are Shanghai's reform plans this year? Recently, a manager in charge of Shanghai's industrial administrative department was interviewed by this reporter, and he disclosed that Shanghai's plans will focus on the need to change the management mechanisms to set up a modern enterprise system. In deepening enterprise reform, different types of enterprises will adopt different measures, so that big enterprises are strengthened, the small ones become more versatile, the good ones are organized, and the bad ones are eliminated.

This reform measure of providing different guidance will be implemented in conjunction with the continued implementation of the "Provision" in enterprises and as they change their management mechanisms. Upon organizing and perfecting some enterprise groups, mainstay industries and key trades and industries and large enterprises that have attained economies of scale to some extent and whose products have already captured fairly large market shares will be the first to be empowered to manage state-owned assets; the holding company pilot projects will be expanded. The management format of smaller state-owned enterprises that are not large in scale



but have a good future will become even more versatile. Some can be reorganized into shareholding cooperative enterprises; some can adopt the method of leasing and become state-owned, civilian-operated enterprises; some may try transferring their property rights to the collectives or individuals in a step-by-step process. Emphasis will be put on state-owned enterprises that are relatively profitable and have had clear success in changing their mechanisms; they will be turned into corporations. A set of scientific and standardized organizational system and management system pertaining to decisionmaking, implementation, and supervision will be set up so that enterprises truly have property rights in assets as legal persons. Enterprises that are inefficient, that are poorly managed, that have no hopes of turning around, and cannot be turned into corporations, should be merged, drastic restructured, auctioned off, or declare bankruptcy, or be leased out or reorganized in order to optimize the composition of the stock of state-owned assets and preserve and propagate their value.

Reportedly, thorough reform of Shanghai's industrial enterprises produced new results last year. Various pilot reform projects, with a heavy emphasis on *yang* (imitations of the three kinds of wholly and partially foreign-owned enterprises), *gu* (the shareholding system), and *bao* (the contract system), were installed in the state-owned industrial enterprises. Almost all enterprises have begun reforming their labor, personnel, and allocation systems. Enterprise management autonomy as stipulated in the "Provisions" has been handed down in most cases. However development is uneven, and good enterprises are covering up for the bad ones and good businesses are covering up for bad businesses. For this reason, Shanghai's industrial management department has taken initial steps to set new goals to put more force on reform this year. Municipality-wide, around 600 state-owned enterprises will basically change their management mechanisms and begin to take inventory to determine fund sources. Ten enterprise groups will be selected to serve as experimental points and will be empowered to manage state-owned properties. Ten will pilot the modern enterprise system, and another ten will pilot the directional capital-raising shareholding system. In addition, 10 larger-scale enterprises with sound foundations will be nominated to be among the 100 national enterprises to pilot the modern enterprise system.

To realize this year's new enterprise reform goal, the pilot enterprises will comply with the needs of standardization and implement a series of reform with respect to the organizational system, management system, and labor, personnel, and distribution systems, so that gradually property rights are clearly delineated, government and enterprises are separated, and enterprises will have management autonomy, be able to take care of their own profits and losses, initiate their own development, and discipline their own behavior. Other enterprises will also actively create conditions to accelerate the change in mechanisms, set up a modern enterprise system that meets the demands of the market economy, and strive

for new breakthroughs in the enterprise system. Reportedly, many enterprises have contacted the relevant departments to volunteer their services.

#### Shanghai Predicts Economic Growth in 1994

94CE0323A Shanghai SHANGHAI GONGYE JINGJI  
BAO in Chinese 4 Jan 94 p 1

[Article by Zheng Zuguo (6774 4371 0948): "Driving on the Fast Lane, Undergoing Major Changes: Shanghai's Economy To Leap Even Higher This Year: Growth Rate To Reach 14 Percent; Pudong's Development To Reach New Height; Financial Transactions To Become Even More Orderly; Export Trade To Increase Steadily; Importing of Foreign Capital To Make New Breakthrough; Infrastructure Input To Increase; Scope of Market Exchange To Further Expand; Districts and Counties To Give Impetus to the Tertiary Industry"]

[Text] There will be new breakthroughs in Shanghai's reform and opening up this year, and the national economy will continue its trend of sustained, rapid, and healthy development. Specifically, the municipality's economic development will display the following trends:

Economic growth will continue to be fairly strong, showing a trend of sustained, rapid, and healthy development. In recent years, Shanghai has continued to put large amounts of domestic and foreign capital into its economy. The marketization process is playing an increasingly prominent role in optimizing the allocation of resources; the scopes of the mainstay industries are rapidly expanding. This year, given Shanghai's market condition, quality, and efficiency, its GNP is expected to grow by approximately 14 percent. Because of the sudden surge in many large markets this year, the tertiary industry will undergo unprecedented development. Its growth rate may exceed that of the GNP, and the economic efficiency of its industries will continue to set national standards. In the wake of the implementation of the classified tax system and the continued increase in overall income, local government revenues will continue to increase at a steady pace.

Development of the financial industry will accelerate; fund utilization will become even more orderly. Today, the specialized banks are operating more like commercial banks and the existing commercial banks have laid a good foundation for future development; 28 foreign-funded financial institutions have opened in Shanghai. These have created the conditions for a financial system which is unified but open, which facilitates orderly competition, and which is strictly managed. We can anticipate that even though it will be harder to raise capital this year, Shanghai's financial market will become even more orderly, and construction and production funds are assured.

The opening and development of Pudong will be marked by progress in basic development which will gather momentum; the development of new functions will continue to accelerate, and city and district development will

keep pace with growth. In the three years since the opening of Pudong, the first group of 10 major infrastructure construction projects has been completed two years ahead of schedule. The construction of the first group of 50 commercial buildings in the Lujiazui financial district has begun ahead of schedule. The Jinqiao export processing zone has taken in more than 200 projects; 30 have already gone into production and are among the first to harvest the fruits of development. Waigaoqiao's tax-shelter zone has as many as 800 projects; the tax-shelter market and the piers in the port area are in operation. The New Pudong District, which concentrates on international trade, export processing, and financial business, will soon reach a high tide in accelerating the development of those functions.

The construction of a big market system will continue to be marked by expanded scope, orderly transactions, and the bringing in of more and more functions into play. Shanghai already has formed the basic framework of a big market system; it already has a fledgling state-class market. Last year, the municipality's volume of securities exchange surpassed 400 billion yuan; there were more than 1,600 seats in the securities exchange, with more than 100 different types of stocks being traded. Volume of transaction in the metals exchange topped 300 billion yuan. As the market plays an increasingly prominent role in optimizing resource allocation, and with the economy sustaining a fairly high rate of growth, the number of big markets and the volume of transaction in Shanghai will continue to grow, and many economic laws and provisions and market regulations will be introduced. A prominent feature of Shanghai's big market development this year will be its growing impact on the rest of the nation through its fund gathering and distribution and resource allocation functions, and it will forge even closer ties with the international markets.

There will be new breakthroughs in terms of territory and scale with respect to the bringing in of foreign capital. Foreign trade will be marked by steady recovery. This year, there will be continued breakthroughs in terms of projects and dollar amount of foreign capital brought in. The secondary industry's focus in bringing in foreign capital will be on the development of heavy industry and township enterprises. Foreign investments in the tertiary industry will be attracted more to finance, commerce, and retail. Domestic sales of commercial buildings and the adoption of the BOT method will make new breakthroughs too. In the wake of Shanghai's readjustment of its foreign trade thinkings and the rapidly increasing functions of the New Pudong Zone, some enterprises that manage their own exports will become more mature; non-commodity trade will continue to increase. The rate of increase in foreign exports will equal that of the increase in the GNP. Other forms of foreign economic cooperation will also make great strides.

Urban infrastructure construction will be marked by its sharp focus, accelerated progress, and clear results. This year should mark a season of bumper harvest in infrastructure construction. One by one, a group of important

municipal construction projects will be completed and put to use. After the completion of the Yangpu Bridge, the second phase of the waterfront project, and the project to widen Jiangsu Road, the inner loop is completely open to traffic; the first phase of the combined sewage treatment project is in operation. At the same time, another group of municipal construction work is reaching high tide. The Number 1 subway track will be tested upon completion; construction of the elevated roadway of the Chengdu Highway will be accelerated to create a 8.3 km framework of roadways. A new round of major construction work has been unveiled. Construction of the outer loop roads and the multiple track Huangpujiang tunnel will soon begin. Acceleration of infrastructure construction will continue to promote the development of other related trades and industries and will become one of the driving forces behind the rapid economic growth.

District and county economies will be marked by the development of the tertiary industry, especially by the speeding up of the development of specialty businesses, to promote economic growth. The construction of a large group of commercial and tourist facilities will be accelerated in the suburban counties. Upon strengthening unified planning, many new specialty markets will be developed in the urban areas. A central business district will soon take shape.

The living standard will rise even higher, and the consumer goods market will continue to be brisk. Retail sales will increase at a rate of more than 30 percent and volume will exceed 80 billion yuan this year. Construction of high-quality commercial and residential buildings and vacation homes may slow somewhat, but domestic demand for commercial buildings and residential homes is still brisk, and construction will be stepped up. Markets for decorations and other accessories will also grow accordingly.

While Shanghai's economy will continue to develop fairly rapidly, its economic development still has many unresolved contradictions—contradictions that have been around since the beginning, but in addition, there will be new effects and new problems produced by the central government's strengthening of its macro regulation and control and thorough reform. For example, there will be further increases in the demand for production funds; problems in the original channels for fund gathering and distribution will continue to grow; new chains of debt may resurface. New thinkings and new countermeasures are needed to solve the new fund predicaments. It is urgent that Shanghai increases its foreign trade development momentum, and it is imperative that enterprises actively open up new markets. They must promote development in the investment goods and the consumer goods markets and in retail and wholesale businesses under the conditions of slowing total demand and intense competition. There is a growing number of factors contributing to lower enterprise profits and higher enterprise losses.



We can predict that this year will be a year full of hope. So long as it upholds the strategic principle of taking the lead in reform and solves its many problems diligently, Shanghai's economic development will continue to reach new heights.

## FINANCE, BANKING

### Years of Deficits in Perspective, Solutions

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MANAGEMENT] in Chinese No 6, 28 Nov 93 pp 26-31

[Article by Xie Jiangfa (6200 3068 4099), Associate Professor at Guangxi Electrical University, Liuzhou campus: "Years of Deficits in Perspective, Solutions"]

[Text] In the 14 years since the Third Plenum of the 11th CPC Central Committee, economic construction, living standards, and overall national strength have all taken a giant leap, scoring achievements that have caught world attention. In sharp contrast, there have been endless fiscal problems in China in the same period, including a mounting budget deficit that came back year after year. A heated debate revolving around the budget deficit is now underway in the theoretical circles and in the

functional departments from a variety of perspectives. This article focuses on government budget deficits in the seven years (abbreviated hereafter as the last seven years) between 1986 and 1992 (including those in the Seventh Five-Year Plan).

### 1. Characteristics of Budget Deficits

The Chinese Government ran a budget deficit every year in the 14 years between 1979 and 1992 with the exception of 1985, when it reported a tiny surplus as a result of one-time factors, accumulating a combined deficit of 130 billion yuan, or 10 billion yuan annually on the average. If debt incomes are discounted, China's budget was in the red every year for the past 14 years, with a combined deficit of 400 billion yuan, more than 30 billion yuan each year on the average. See table below for details.

By halving the 14-year period, we see that budget deficits of the last seven years had the following characteristics:

#### 1) The deficits increased persistently all round.

Regardless of whether the narrow or broad definition is used, China ran a budget deficit in each of the last seven years. (See table below.) Under the narrow definition, the accumulated deficit shot up to 336,559,000,000 yuan, 3.7 times that of the first seven years.

Table 1 Revenue and Expenditures of the Chinese Government 1979-1992 (unit: in billions of yuan)

Item/Year	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Gross Revenue	110.33	108.52	108.95	112.4	124.9	150.19	186.64	226.03	236.89	262.80	294.79	331.26	358.28	391.21
Including: Debt incomes	3.53	4.30	7.31	8.39	7.94	7.73	8.99	13.83	16.96	27.08	28.3	37.55	45.5	79.41
Gross Expenditures	127.39	12.17	11.15	115.33	129.25	154.64	184.48	233.08	244.85	270.66	304.02	345.22	379.39	412.0
Difference Between Revenue, Expenditures	-17.06	-12.75	-2.55	-2.93	-4.35	-4.45	-2.16 (as pub.)	-7.05	-7.96	-7.86	-9.23	-13.96	-21.11	-20.79
Net Difference Between Revenue, Expenditures	-20.59	-17.05	-9.86	-11.32	-12.29	-12.18	-6.83	-20.88	-24.92	-34.94	-37.53	-51.51	-66.60	-10.01

Notes: 1. Source: "China Statistical Yearbook," 1991, JINGJI RIBAO 6 April 1992.

2. Difference between revenue and expenditures = gross revenue - gross expenditures.

3. Net difference between revenue and expenditures = gross revenue - debt incomes - gross expenditures

Not only did the government deficits for the last seven years show a sustained increase, but they were present in the entire process. Earlier, the government drew up a balanced budget only to see it dip into the red during the execution and policy-making stages. Later, it started out with an unbalanced budget, so the deficit was there from the beginning and remained there through the execution

and policy-making stages. This is clear from the government's 1992 budget, where gross incomes were listed as 391,213,000,000 yuan and gross expenditures, 411,939,000,000 yuan, yielding a deficit of 20,786,000,000 yuan (as published). This kind of persistent, all-round, and process-long deficits portend a deteriorating fiscal state for the nation.



## 2) Coexistence between printing money and issuing bonds to close the budget deficit

Basically there are two well-established ways to close a budget deficit: one, issue treasury bonds at home and overseas to raise funds, and, two, print money. Recurrent expenditures in the last seven years amounted to 1,883,433,000 yuan in all, while expenditures totalled a whopping 2,189,922,000 yuan, resulting in a shortfall of 306,489,000,000 yuan. The issue of bonds at home and abroad raised 217,827,000,000 yuan, still leaving a gap of 88,662,000,000 yuan. This left the government no

choice but to print money to balance the budget. As a result, the deficits of the last seven years had a duality to them: both the issue of bonds and money-printing were used to close the budget gap.

## 3) Coexistence between economic growth and rising government deficits

The Chinese economy enjoyed fast and sustained growth in the last seven years, with the GNP expanding at the average annual rate of 10.94 percent each year. See table below for year-by-year GNP data.

Table 2. GNP 1986-1992 (unit: in billions of yuan)

Item/Year	1986	1987	1988	1989	1990	1991	1992
GNP	969.63	113.01	1,401.82	1,591.63	1,768.61	1,892.41	2,005.95

Be that as it may, there was not the slightest improvement in the government's fiscal plight. On the contrary, the deficit rose 16.7 percent annually on the average based on the narrow definition and 25.1 percent using the broad definition. The deficit outpaced economic growth by 7 to 15 percentage points annually on the average. Thus, the last seven years were characterized by the coexistence between fast economic growth and a deficit rising just as fast. In fact, what distinguishes the last seven years is the fact that budget deficits increased at a rate higher than the economy. This is the sign of a worsening fiscal situation. The average annual growth

rate of the GNP exceeded 10 percent in the first seven years also, yet the budget deficit fell 15 percent annually. We had the best of both economic worlds then: economic growth and a shrinking budget deficit.

## 4) Coexistence between a budget deficit at the central level and local budget deficits

The nation was in a fiscal bind in the last seven years, running a deficit year in, year out. The fiscal difficulties were common to local governments as well as the central government: Both were in the red in just about every year. Table 3 gives a detailed picture of the coexistence of budget deficits at the two levels, national and local.

Table 3: Budget Deficits at Central and Local Levels 1986-1992 (unit: in billions of yuan)

Item/Year	1986	1987	1988	1989	1990	1991	1992
Combined National Deficit	-7.05	-7.96	-7.86	-9.23	-13.96	-21.11	-23.75
Central deficit	-4.55	-12.66	-1.49	+0.03	-0.49	-18.07	-20.64
Local deficit	-2.50	+4.70	-6.37	-9.26	-13.47	-3.04	-3.11

While the budget deficit of the central government rose 24.1 percent each year on the average, the budget gap at the local level expanded 3.1 percent. In contrast, there was no such coexistence in the first seven years, particularly during the Sixth Five-Year Plan. Although the central treasury was unable to balance its books in those years, local governments ended each year with a surplus. That both national and local governments are now drowning in a sea of red ink testifies to the accelerating deterioration of our fiscal position.

## 2. Causes of Budget Deficits in Successive Years

Budget deficits were caused by a host of factors, some external to public finance, some having to do with public finance itself.

### 1) A broad decline in profitability

Measured by whatever indicator—gross social output value, GNP, or national income, the Chinese economy grew by more than 10 percent annually during the last

seven years. In real prices, the gross social output value rose 14.8 percent each year on the average; gross industrial output value, 12.8 percent; and national income, 12.9 percent. But robust economic growth has not been accompanied by an equally brisk increase in government revenue. Take the profit and tax to investment ratio, for instance, which is directly related to how much the government collects in revenue. The profit and tax to investment ratio has been declining in successive years. For enterprises owned by the whole people, the profit and tax to investment ratio dropped from 20.7 percent in 1986 to 12.4 percent in 1990, a decline of 8.3 percentage points. Calculations show that because of the fall in the profit and tax to investment ratio, the treasury collected a total of 125 billion yuan less in taxes and profits in the Seventh Five-Year Plan, a drop of 25 billion yuan each year. By 1992, the ratio had slipped to just 10.11 percent for industry nationwide, a 100 percent decline. This shows that economic growth in China came at a high cost; the growth was fast but low in profit, thus driving down the profit and tax to investment ratio year after

year. The plunge in profitability lies at the heart of the string of budget deficits over the years.

## 2) The decline of government revenue as a share of GNP

What the government collects as revenue makes up part of the added value created in all sectors of the national economy that finds its way into the hands of the government through distribution and redistribution. Revenue originates in the third phase of industrialization. Given a particular set of circumstances, changes in the size of government revenue as a share of GNP should be in direct proportion to changes in the magnitude of the revenue; the higher the percentage, the greater the revenue, and vice versa. The size of the revenue relative to the GNP plays a critical role in the formation, changes, and development of the deficit. Government revenue accounted for more than 20 percent of the GNP every year during the first seven years. Since 1987, however, the share has been declining, down to 16 percent in 1988-1991 and a mere 15.5 percent in 1992. In developed Western countries, government revenue typically constitutes over 40 percent of the GNP, and in Asia's four mini-dragons, over 25 percent. China was off by 25 percentage points compared to the former and 10 percentage points compared to the latter. When the percentage is too low, government revenue inevitably shrinks and any increase will be slow in coming. This is a major cause of China's budget deficits.

## 3) The heavy burden of government subsidies

In the last seven years the treasury shelled out 333.8 billion yuan in all to subsidize money-losing enterprises and another 233 billion yuan in price subsidies. Total price tag: 566.8 billion yuan, far in excess of the sum of budget deficits for the same period. While this shows that public finance in China is people-oriented and production construction-driven, it also leaves absolutely no doubt that the onerous burden of government financial subsidies is an extremely important explanation of China's fiscal woes, including the budget deficits it has been piling up many years in a row.

## 4) Government revenue losses a severe problem

The massive amount of revenue that has been lost, particularly as a result of tax evasion, is another major cause of China's fiscal difficulties and budget deficits in the last seven years. Because of flagrant tax evasion, a substantial amount of revenue that should have gone into the national coffers was simply lost for nothing. Reportedly, the tax evasion rate is 10 percent in developed nations and 20 percent or so in developing countries. There are no reliable statistics on China, but a number of existing studies does give us a glimpse of the dimensions of tax evasion and tax underpayment in China. According to a survey by the Xiangtan tax bureau in Hunan, 44.2 percent and 32.3 percent of individual industrial and commercial households practiced tax evasion in 1988 and 1990, respectively. In 1988, only 3 billion yuan or so were collected in revenue from individuals. In 1989, following the nation's first personal tax

general inspection, the figure shot up to 13.2 billion yuan. The increase continued in 1990, hitting 14.5 billion yuan. Be that as it may, insiders believe that the government is collecting at most half of what is owed the treasury in taxes. Every inspection, so said a tax official from the Chaoyang district in Beijing, shows that at least 90 percent of the state enterprises and collective enterprises had some tax problems, large or small. Thus tax underpayment and tax evasion have become a chronic problem in tax collection—a big budget buster.

## 5) Budgetary discipline softening and spending getting out of control

Some of the causes of fiscal difficulties can be found at the revenue end, others at the spending end. At the spending end, a striking problem is softening budgetary discipline and the loss of control over spending. This manifests itself not only in the way the scale of capital construction was widened without authorization, including the reckless proliferation of nonproductive projects, buildings, hotels, etc., but also in the multiplication and over-staffing of government organs at all levels. Turning to the number of people on the public payroll, the wages of 15 million people came out of the nation's budgets in 1979. By late 1991, the number had risen to almost 40 million, a 267 percent increase over 1979. In 1980, administrative costs nationwide amounted to 40.4 billion yuan. By 1991, it was 140 billion yuan, up 347 percent compared to 1980. Some localities waste national funds wantonly, causing severe fiscal difficulties.

## 6) Explosion of off-budget funds

There is a finite amount of funds at the disposal of the treasury at any given point in time. Budget funds and off-budget funds are related to each other and money can be shifted from one to the other. Under normal circumstances, off-budget funds should be lower than budget funds in terms of both the absolute increase and the growth rate. Just the opposite happened in the last seven years. Off-budget funds soared. Take the 1986-1989 period, for instance. While budget funds rose a mere 5.86 percent annually on the average, off-budget funds expanded rapidly at the average annual rate of 11.22 percent, double that of budget funds. Absolutely speaking, there were almost as much off-budget funds as there are budget funds. As more treasury funds were shifted outside the budget, the amount that remained inevitably diminished. This is another important reason why the state became strapped for funds and could not balance its budget.

## 3. The Nature of Budget Deficits

For 14 years the Chinese Government ran a deficit in its budget year after year, but the nature of the deficit changed over time. At the beginning the policy was to "balance revenue with expenditures and come up with a little surplus." The government started out by drawing up a balanced budget, not a deficit budget. However, the subjective did not coincide with the objective in the

course of implementation, that is, projected revenues did not materialize while expenditures exceeded what was planned. The result: a deficit, an unforeseen deficit that occurred because the projected balance was upset by new factors. During the Sixth Five-Year Plan, there was a gradual erosion of public appreciation for the fiscal policy of "balancing revenue with expenditures and coming up with a little surplus," while the inconsistency between the finite nature of revenue and the infinite nature of spending was over-emphasized. Prompted by a desire for instant gain and dismissing deficits as harmless, we relaxed the spending restraint in executing the budget and increased expenditures as we pleased. Revenue and expenditures thus went out of balance and a deficit ensued, an artificial kind of deficit that resulted from conscious decisions. As the Seventh Five-Year Plan went underway, the policy of "balancing revenue with expenditures and coming up with a small surplus" fell by the wayside, the prevailing idea then being that "it is alright to run a deficit." Under the new policy, the deficit was made part and parcel of the entire budgetary process, from its preparation to its implementation. It was used to close the gap created by the excess of expenditures over revenue, to expand the scale of construction, and to run and develop the economy and all sorts of undertakings. In essence, what we had was a deficit policy; what we practiced was deficit economics.

#### 4. Closing Budget Deficits: Major Strategies

To overcome our fiscal difficulties and eliminate the budget deficit, the most basic solution is to raise the level of profitability of the entire national economy substantially during the third phase of industrialization, effectively ending the situation in recent years when the economy was locked in fast but unprofitable growth. Certainly, raising the level of profitability is an extremely arduous piece of systems engineering, absolutely not something that can be tackled by the Ministry of Finance alone. But this does not mean that finance agencies should sit by idly and do nothing. On the contrary, they must play an active part to push the enterprise along. This article focuses on ways of resolving the fiscal difficulties and eliminating the budget deficit primarily from the perspective of finance agencies. These are some of the more important steps that can be taken:

##### 1) Clearly define a guiding philosophy for public finance

For years after the PRC was founded, it had always been the philosophy of public finance in China to "do what one is capable of, balance revenue with expenditures, and come up with a small surplus." As reform and the open policy went into full swing and hampered by the decline in profitability, the gap between revenue and expenditures widened by the day. In recent years a heated discussion has been underway revolving around the question of whether deficit budgeting is any way to close the gap. At the heart of the discussion is this: Are deficits good or bad? Pedantic arguments and counter-arguments continue to fly back and forth, with no

conclusion in sight. In essence, however, the controversy is really over whether our public finance philosophy needs to be reformed.

Take a look around the world today. All countries that follow a deficit economic policy, whether capitalist or socialist, now find themselves in a bind: saddled with debts and a string of budget deficits and caught in economic turmoil and relentless inflation. Rare is the country which manages to break this cycle. Even the United States, the paramount capitalist superpower, has finally seen the light after tasting to the full the bitter fruits of deficit budgeting for years. As soon as he assumed office, President Clinton started pushing for an end to the deficit and has taken a number of practical steps to trim the deficit. As for the developing nations that have adopted deficit budgeting, the vast majority of them are being plagued by inflation and staggering under a mountain of debts that will never be paid off in full, their economies in worse shape than ever. What China has been following in recent years is actually a deficit economic policy. Although the policy has not yet resulted in economic disruptions of disastrous proportions, the skyrocketing inflation of 1989 and the subsequent drive to improve the economic climate and rectify the economic order are clear signals. They also mirror the "time release" effects of deficit budgeting. As the peak period of debt repayment looms on the horizon, China has gotten to the stage where it must take out new loans to pay off old ones. In 1992 debt incomes accounted for 20 percent of gross revenue for that year. In the same year, however, debt expenditures amounted to 54 percent of debt incomes. This is something to be taken note of. In price reform, the two tracks are beginning to merge and full-fledged price decontrol is now under way. The prices of certain capital goods and articles of daily use are rising rapidly. Some signals, such as the depreciation of the renminbi against the dollar, are all raising the inflationary expectations of consumers (and producers too) to various extents. We are now at a turning point where consumers expect change; people are anticipating a new round of inflation. Accordingly, the prolonged and widespread existence of budget deficits, whether covered by borrowing or the issue of more money, is harmful. Only by adhering to the fiscal philosophy of "do what one is capable of, balance revenue with expenditures, and come up with a small surplus" can we ensure that the economy and revenue grow at the same pace.

##### 2) Improve revenue collection management and supervision.

Revenue collection is the cornerstone of all public finance operations. Thus far finance departments at all levels have done an enormous amount of constructive work to strengthen collection management and supervision. Their achievements must be acknowledged. However, we also should see that tax underpayment, tax evasion, and tax cheating continue on a large scale so that the treasury cannot get hold of the funds it is entitled to and ends up with reduced revenue. Had collection



management been tightened further, the national coffers would have been enriched by 30 billion yuan, or 10 percent. Thus improving collection management and supervision is a major tool to overcome fiscal difficulties and erase the deficit. Since taxes make up over 80 percent of government revenue, we should concentrate on beefing up tax collection and supervision. Besides improving existing methods of proven effectiveness, we should study extensively the effective measures that other countries, particularly developed nations, have adopted to strengthen tax collection management and supervision and combat tax evasion, modifying for application in China those that are scientific and suited to China's conditions in order to further improve and strengthen its tax collection and supervision system. As for measures now in use which are known to be effective, such as the annual tax general inspection, they should be continued steadfastly and improved further. Penalties and punishments should be made more severe to prevent continuous revenue losses and deter new tax underpayment and evasion effectively. These days tax offenders are fined and ordered to pay back what they owe the government in taxes. But then they would turn around and continue their tax evasion until they face yet another round of the same penalties. We must break that vicious cycle. Serious blatant tax evaders must be dealt with in accordance with the law and punished harshly. In addition, these days localities cut or waive taxes and call them preferential policies. The upshot is that tax revenues are fragmented and funds that should have flowed into the national coffers are misused or siphoned off into other channels. We must take pains to stop these trends.

### 3) Tap new revenue sources ceaselessly.

The third step finance departments can take to overcome fiscal difficulties and eliminate the deficits is to pay attention to tap new revenue sources in a timely fashion based on the latest progress on the reform and open policy front. In this respect Guangdong has broken much new ground profitably and achieved a lot of gratifying results. Its experience should be disseminated. In 1992 Guangdong sold off 7,010 hectares of land, earning 9.4 billion yuan (including urban infrastructural matching fees), equivalent to 44.8 percent of the provincial government's total revenue for the year. In many prefectures and municipalities, land-derived incomes are approaching or have exceeded what the local jurisdiction collects in revenue and have been dubbed the "second treasury." It is a foregone conclusion that land, a state property, will enter the market extensively as a special commodity as reform and the open policy are furthered steadily and a socialist market economy gradually takes shape and develops. Logically speaking, incomes derived from the auction of land use rights based on land prices should go to the Ministry of Finance. At present, however, the government is losing such incomes on a substantial scale as they end up in the hands of some collectives, groups, or individuals. Land transactions are highly profitable, which explains why land speculation has become such a major problem today, with a handful

of people reaping a windfall at the expense of the state. In conjunction with other interested national agencies, finance departments should immediately work out laws and regulations to lay down clearly the taxes payable by people involved in land transactions as well as their legitimate profits. They should waste no time in conducting a comprehensive and thorough audit and firmly recover all illegal profits to benefit the national coffers. Moreover, finance departments at all levels should be required to devote manpower to study and identify new revenue sources without cessation. The real estate market, stock exchanges, high-tech market, and other markets are all new revenue sources that must not be overlooked. Tapping these new sources will go a long way toward easing our fiscal plight.

### 4) Strictly limit and gradually reduce miscellaneous government subsidies.

Miscellaneous subsidies cost the Ministry of Finance 570 billion yuan in lost revenue and increased expenditures in the last seven years, averaging over 80 billion yuan a year. For this reason, we must take stock of every kind of government subsidies most carefully. The last thing we should do is to impose a single policy across the board. With the exception of subsidies to offset policy-induced losses, which should be retained, we must require all other operating losses to be turned into surpluses within one to two years, after which subsidies would be cut off. Public finance in China, we must insist, should be production-based public finance, not welfare-oriented public finance. No longer should the treasury continue to spend vast sums of money to salvage from the bottom of the sea of the socialist market economy those enterprises that prefer surviving long-term on state hand-outs to struggling on their own to turn business losses into profits. To do so would violate the law of the market—survival of the fittest—and be counter-productive. Turning to price subsidies, price subsidies for agricultural capital goods and protective procurement price subsidies for agricultural products should be retained. As the government moves to decontrol prices gradually, other price subsidies, such as those for articles of daily use, should be abolished. Instead, the treasury should offer subsidies only to those households below a predetermined income level. Under the current system, everybody, from 10,000-yuan households to 100-yuan households, collects subsidies. That practice should be brought to an end. If only government subsidies are cut 10 percent a year, the treasury would be able to trim spending or increase revenue by 8 billion yuan. This is something that must be taken seriously.

### 5) Strictly rein in all sorts of nonproduction expenditures and tighten budgetary discipline.

Besides revenue-enhancing efforts, an extremely vital step to eliminate fiscal difficulties is to strictly rein in all sorts of nonproduction expenditures. In 1991 China spent 34.78 billion yuan in administrative costs, a 610 percent increase over 1978. It has been calculated that by halving the public payroll, the central government can

save about 60 billion yuan a year. Purchases by social groups nationwide reached 41.38 billion yuan in the first half of 1991, a gain of 17.9 percent over the corresponding period a year ago. The health care bill footed by the treasury in 1990 exceeded 10 billion yuan. When it comes to these and similar massive nonproduction expenses, we must stiffen budgetary discipline and strictly prohibit over-spending. Finance departments at all levels must stick to the spending level in the budget, firmly refusing to pay any overspent amount. Furthermore, the squandering of state funds on any pretext must be proscribed by formal decree. There is a new, unhealthy trend in the special economic zones, Hong Kong and Macao: using public funds to throw "10,000-yuan banquets" and pay for "1,000-yuan simple meals" just to show off one's wealth. Another fad rapidly gaining popularity is to make study trips abroad at public expense, gobbling up wealth the workers create through hard labor. A one-month study mission to the United States costs the government over 70,000 yuan per person. These days even perennially under-funded elementary and secondary schools have been lining up to send study missions overseas bearing all sorts of names. These trends should be checked without delay. By tightening budgetary discipline, we can avoid over-spending.

6) Make the most of and strengthen auditing and supervision.

As reform and the open policy quicken their pace, some units and individuals have resorted to a variety of illegal ploys to participate in economic activities and misappropriate government properties and funds, thus siphoning off public assets into private hands and making a fortune at public expense. This is particularly true of the upstarts who reaped a windfall from the third round of industrialization. Now they lead a life of decadent luxury every day, spending money like water. It is imperative, therefore, that we scrutinize our financial and economic law and discipline and conduct an audit on the assets of every upstart. Illicit incomes should be recovered and the economic climate must be purified. We must create a normal economic order consistent with a socialist market economy, protect state properties, and encourage people to get rich legally.

In short, China was plagued by fiscal problems and ran a budget deficit year after year in the seven years between 1986 and 1992, the outcome of a broad decline in profitability and a deficit economic policy. The only way to end this plight and push ahead with the development of a socialist market economy is to look back in earnest and work out practical and feasible strategies.

## INDUSTRY

### Yang Peixin on Shortage of Funds for Industry

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[Article by Yang Peixin (2799 1014 2450) of State Council Development and Research Center: "Why There Is a Shortage of Circulating Funds for Industry"]

[Text] Since the implementation of the macro-economic control program in July 1993, there has been a shortage of circulating funds for industry in China. Even now, this situation has not been alleviated. In some districts, enterprises have stopped production completely or partially, because they have no money to buy raw materials or pay wages. We must conscientiously study and analyze this situation.

### Why Are Circulating Funds for Industry Insufficient?

The issue of insufficient circulating funds for industry is really something which has cropped up in the course of exercising the macro-economic control. However, we should point out that due to the high rate of growth of our national economy, this phenomenon had actually appeared since the first half of 1993. The macro-economic control and the tightening of the money supply have aggravated this situation.

The high growth rate of the national economy demands even more circulating funds for industry.

1. According to an analysis, the amount of investments in fixed assets was more than 700 billion yuan in 1992 and 1.1 trillion yuan in 1993 of which the portion of projects completed and went into operation cost about one trillion yuan. The minimum circulating funds needed was 100 million yuan. Under ordinary conditions, the amount of circulating funds needed was about 30 percent of the fixed assets. Therefore, the amount of circulating funds needed to buy new equipment for production would be approximately 100 to 300 billion yuan.

2. The amount of loans used as circulating funds for industry totalled 1.5 trillion yuan at the end of 1992, and the total industrial output value rose by more than 20 percent. Thus, there is a need to increase the amount of circulating funds for industry by 300 billion yuan.

3. The prices of industrial raw materials have increased. According to statistics compiled, the prices of capital goods have increased by 30 percent, and the cost of investment by 40 percent. On the basis of the price increases of capital goods, we need to duly increase the amount of circulating funds by 450 billion yuan. Due to the high rate of growth and the decontrol of the prices of capital goods, the amount of circulating funds needed would exceed one trillion yuan, of which tens of billion yuan are needed in support of national construction projects. It is precisely for this reason that from October 1993, the specialized banks had poured capital into industrial enterprises in the form of loans and in other forms, while the central bank had helped the specialized banks in doing refinancing. Although the reserve ratio of the specialized banks on their deposits rose from approximately 1 percent to 13.9 percent, some of their funds have not been released yet. Nevertheless, we should admit that the banks have truly increased the amount of loans used as circulating funds for industry. Then why is there still a shortage of money on the market? From the aforementioned estimates, we should realize that due to

the rapid rate of growth of the industrial output value and the acceleration of the price reform, we inevitably need a large amount of circulating funds. In seeking a high rate of growth, we must pour in a large amount of capital and fixed assets. Without money, we are unable to develop our economy. We must also pay a price for the pricing reform and expand the supply of circulating funds for industry. Right now, many of the state-owned industrial enterprises in China still remain on the track of planned economy. Their efficiency is still quite low. It is difficult for the whole society to keep pace with the excessively high rate of growth with its current accumulation. This would inevitably cause inflation and price increases, and make factories pay more for their raw materials. From this, we can see that we actually need and can achieve a higher rate of growth in the development of our economy, but the rate of growth is still dependent on the monetary and material supplies, and the amount of material supplies (including those additionally produced and those imported from abroad) is still determined by the amount of available funds (including Renminbi and foreign exchange). To believe that the rate of growth should be as high as possible without taking into consideration the amount of available funds and that even if inflation swells, it will not affect the rate of growth is an unrealistic idea.

#### How To Tackle Issues Regarding Shortage of Circulating Funds for Industry

According to a bank survey, the reasons causing shortage of circulating funds for industry are as follows:

1. Some of the enterprises in the fields of textile, coal and chemicals are not doing well in selling their main products and they have a large stockpile of manufactured goods. They owe others a great deal of money, while others also owe them a great amount of money. No matter the money is easy or tight, the enterprises have little circulating funds.
2. Enterprises recklessly raised funds and borrowed money, and there is always a constant flow of money out of the district, causing a shortage of funds in a certain district.
3. Enterprises have insufficient circulating funds. Ten percent of the 5,000 large- and medium-sized enterprises fail to maintain a definite percentage between their circulating funds and their total capital, while 20 percent of them fail to maintain a fixed amount of circulating funds. The situation in smaller enterprises is even worse.

They mainly rely on bank loans. Once the bank tightens the money supply, they are in trouble.

4. A part of the circulating funds is used as investments in fixed assets. When enterprises have no money to develop technical innovations, they use circulating funds to do so.

5. Enterprises continue to manufacture slow-moving products.

6. Enterprises owe each other more and more money. This situation is worse in the fields of machine-building, building materials and iron and steel industry. It is mainly because of investment curtailment and lack of construction funds.

The aforementioned examples indicate that shortage of circulating funds for industry has existed long time ago. It is mainly because of the fact that enterprises' tax burdens have already accounted for 90 percent of their net revenue (or the total amount of profits and taxes). This percentage may reach 94 percent for some large enterprises. Enterprises have lost their function for self-accumulation. Meanwhile, the financial authorities have also stopped appropriating any fixed amount of circulating funds for enterprises. Nor would they allocate funds to help enterprises develop technical innovations. Enterprises have no accumulations of their own, and they are unable to develop technical innovations without money. Naturally their products will become unmarketable. Such enterprises cannot compete with their counterparts which are not state-owned. When our national economy was rapidly growing in 1992 and 1993, signs of reckless fund raising and money borrowing and illegal use of circulating funds to develop technical innovations had cropped up. After China exercised the macro-economic control, the phenomenon of chain debts surfaced among enterprises. Therefore, the basic contradiction is the fact that our state-owned industrial enterprises are still on the track of planned economy, while they are losing their abilities for self-accumulation and self-development. Whenever the bank tightens the money supply, there will be an even greater shortage of funds. Right now, state-owned enterprises are slow in carrying out reform and they lack vitality. This is the main reason why they are short of funds. The state-owned enterprises are unable to keep pace with the rapid development of our national economy. They can neither advance nor retreat. To earnestly reform the mechanism of state-owned enterprises, help them reduce their tax burdens and truly invigorate them is the only way to fundamentally tackle the issue of money shortage for the enterprises.



**Textile Output in February***HK2203115094 Beijing CEI Database in English  
22 Mar 94*

[Text] Beijing (CEIS)—Following is a list of the output of textiles in February 1994, released by the State Statistical Bureau:

Item	Unit	2/94	2/93
Yarn	10,000t	32.62	45.32
Yarn	10,000pc	181.53	252
Cloth	100m.m	11.35	13.34
Of: Pure cotton	100m.m	6.04	7.62
Chemical fiber	100m.m	3.77	4.28
Silk	10,000t	0.58	0.62
Silk fabric	100m.m	1.84	1.97
Woolen fabric	10,000m	1849.82	1987
Knitting wool	10,000t	2.22	2.38
Garment	100m.pc	2.22	2.11

Notes: t—ton, pc—piece, m.m—million meters, m.pc—million pieces

**Ministry Issues Feb Output for Top 10 Steel Makers***HK2303112494 Beijing CEI Database in English  
23 Mar 94*

[Text] Beijing (CEIS)—Following is the monthly output of China's top 10 iron and steel companies in February 1994, released by the Ministry of Metallurgical Industry:

	2/94	1-2/94	(Unit: Tons) Change (Percent) Over 1-2/93
Capital Iron and Steel Complex	684,955	1,211,874	30.67
Anshan Iron and Steel Company	655,036	1,367,467	-0.76
Beaohan Iron and Steel Complex	477,888	1,084,260	-1.80
Shanghai Iron and Steel Company	521,185	1,067,542	3.01
Baotou Iron and Steel Complex	250,293	519,052	3.45
Wuhan Iron and Steel Complex	422,609	912,923	10.13
Panzhihua Iron and Steel Complex	191,669	409,229	5.00
Benxi Iron and Steel Complex	219,945	439,681	3.10
Maanshan Iron and Steel Company	172,835	365,930	9.94
Taiyuan Iron and Steel Company	189,300	403,425	32.50

**Bureau Issues Jan Raw Materials Output Figures***HK0203144494 Beijing CEI Database in English  
2 Mar 94*

[Text] Beijing (CEIS)—Following is a list of the output of raw materials in January 1994, released by the State Statistical Bureau:

Item	Unit	1/94	1/93
Iron ore	10,000t	1469.59	1350.60
Pig iron	10,000t	722.43	651.00
Steel	10,000t	749.79	683.90
Rolled steel	10,000t	661.29	557.87
Ferro alloys	10,000t	20.25	10.94
Coking coal	10,000t	486.95	463.62
Ten nonferrous metals	10,000t	27.31	24.79
Of: Copper	10,000t	5.22	5.28
Aluminium	10,000t	10.82	9.55
Copper products	10,000t	3.88	3.78
Aluminium products	10,000t	4.78	3.83
Alumina	10,000t	13.66	12.31
Sulphuric-iron ore	10,000t	86.54	69.53
Phosphorus ore	10,000t	103.34	125.11
Timber	10,000cu m	501.07	374
Artificial board	10,000cu m	29.36	23.72
Cement	10,000t	2360.48	2061.20
Plate glass	10,000c	954.37	802.82

Notes: t - ton, cu m - cubic meter, c - case

**SMALL-SCALE ENTERPRISES****Hubei Decision on Developing Private Economy***94CE03184 Wuhan HUBEI RIBAO in Chinese  
7 Jan 94 pp 1, 2*

["Decision by the Hubei Provincial CPC Committee and the Hubei Provincial People's Government on Accelerating the Development of the Individual and Private Economy (24 November 1993)"]

[Text] Since the Third Plenary Session of the 11th CPC Central Committee, Hubei's individual and private economy has greatly developed. This has had a very positive effect in stimulating social production, bringing prosperity to urban and rural markets, making things more convenient for the people, adjusting the production structure, increasing employment of labor, and in increasing revenue for public finance. The individual and private economy has thereby become an important force within the national economy of the whole province. In order to further implement the spirit of the 14th CPC National Congress and of Comrade Deng Xiaoping's important statements on his southern inspection

tour, also to more rapidly and more effectively develop the individual and private economy in our province, and to thereby promote the sustained, rapid, and healthy development of Hubei's national economy, the following has been decided upon:

**1. Further Emancipation of Minds, Greater Unanimity of Concepts**

1) The individual and private economy is an organic part of China's socialist market economy; it is a new growth sector in the developing social productive forces. Personnel engaged in the individual and private economy are workers in the construction of socialism. Rapid development of the individual and private economy is one of the major moves toward the establishment of the system of socialist market economy, and toward raising the national economy of the entire province to a new height of accomplishment.

2) The following ideology is to guide the development of Hubei's individual and private economy in Hubei: It must be guided by the spirit of the 14th CPC National Congress, the fundamental political line of the party must be upheld, as must be "the three advantageous" criteria, the principle of the priority of the public ownership system with its long-term coexistence with elements of multiple other economic forms, and also the principle of competition on equal terms and the principle of common development. Our central concerns must be the establishment of the socialist market economy, improvement of the external environment, accelerated regional legislation, standardization of business procedures, and accelerating the development of the individual and private economy throughout the entire province.

3) In all places, in all sectors, and especially among leading cadres at all levels, there has to be a further emancipation of minds, outdated concepts shall be revised, and the important position and function of the individual and private economy shall gain full recognition. While we shall continue to strengthen the public ownership system, extraordinary measures shall at the same time be adopted to arouse enthusiasm in all quarters to achieve a breakthrough development in the further promotion of the individual and private economy.

**2. Expending Great Efforts To Achieve the Objective of Developing the Individual and Private Economy**

4) For the period from 1993 to 1995, the overall developmental targets of Hubei's individual and private economy are: Each year one large step forward and throughout the three years one great development. On the foundation already laid in 1992, we shall, up to the year 1995, double the number of individually operated industrial and commercial businesses, the total number of privately run enterprises, the number of persons engaged in the said establishments, and achieve twice as much output value and twice as much business volume, namely get to 1.2 million enterprises, 2 million persons, and 30 billion yuan, respectively. At the same time, great

efforts shall be made to improve the trade structure of the individual and private economy, and to accelerate the productive, scientific, and export-oriented development of privately run enterprises.

**3. Simplifying Registration Procedure, Broadening the Scope of Business Operations**

5) All secondary and tertiary industries primarily financed by one or more individuals (excluding non-profit enterprises) shall be considered falling within the scope of enterprises that have to be registered and administered as individually operated industrial and commercial businesses or as privately run enterprises. With the exception of party and government personnel, staff and workers employed in industrial and commercial enterprises, presently serving military personnel, and students at schools—anyone capable of running a business may—on the evidence of his/her proof of identity and other relevant documents, apply to the local administrative organ in charge of industrial and commercial affairs for registration. New entrepreneurs in remote border areas and in impoverished mountain districts may be allowed to start business first and to attend to the prescribed registration later.

6) Individually operated industrial and commercial businesses and privately run enterprises may apply to be allowed to prefix their own name with the name of their county or higher ranking administrative district, and their registration and administration may be carried out at the different administrative levels. Privately run enterprises of certain scale, whether of single proprietorship or whether partnerships, may add "gong si" [company] to their names.

7) Individually operated industrial and commercial businesses and privately run enterprises shall be encouraged to set up productive, scientific, and export-oriented enterprises. Registration requirements, as to number of people employed and amount of registered capital, may be lowered for scientific and export-oriented privately run enterprises during their initial stage of operations. Relevant departments shall be supportive of tertiary industries in the areas of education, cultural affairs, public health, tourism, and consultative services.

8) Individually operated industrial and commercial businesses and privately run enterprises may trade in all lines of business and all kinds of products which it is permissible to trade in, according to state and provincial government provisions. As to products which it is not permitted to trade in, a one-time trade may be transacted with the prior approval of a people's government of county or higher rank or with the approval of an organ authorized by the governments, provided it will not adversely affect the overall situation.

9) Business may be conducted in any form or pattern. Where appropriate prerequisites exist, privately run enterprises may operate, with the approval of the



authority in charge of their registration, as group corporations, and may also, with the approval of the relevant authority, set up enterprises on the shareholding system.

10) Individually operated industrial and commercial businesses and privately run enterprises may take over management under contract, lease, or purchase state-owned and collective-owned enterprises or institute joint business operations with them. If public property is placed under private business management, the relevant authority shall effect an appraisal of assets, ensure that value of government-owned or collective-owned assets is maintained or increased, that ownership status of the assets is not changed, and that there is no change in the character of the operations carried out by the individual or private enterprises.

11) Individually operated industrial and commercial businesses and privately run enterprises shall be encouraged to undertake Sino-foreign joint ventures and cooperative enterprises with foreign business firms, also to extend their business operations to overseas. Where necessary prerequisites exist, privately run enterprises may take up foreign trade, either jointly with foreign trade units or through agencies, and may also, according to regulations, report their import-export trading right to higher authority for record.

#### 4. Improving Business Environment

12) Governments at all levels shall incorporate the plant layout and the various market constructions of individually-operated industrial and commercial businesses and of privately run enterprises into the urban development plan of the locality in question. Market construction shall be accelerated by "raising capital in a multiplicity of ways, with a multiplicity of participants, but with unified management and commonly shares benefits," as well as according to the principle of "benefits to accrue to whoever has invested capital." Units and individuals are encouraged to start up various kinds of markets, and the objective that we shall all strive for energetically is to increase the total number of wholesale markets from 91 in 1992 to 150 by the latter part of the Eighth Five-Year Plan. At the head of this development shall be the large- and medium-sized cities and fairly large commodity collecting and distributing centers. They shall initiate two to three large-scale wholesale markets of substantial capacity and broad effective influence to outlying areas, and shall also initiate a series of medium and small-scale wholesale markets of local character, as also one to two wholesale markets that will rank among the ten large wholesale markets of the entire country. At the same time, great efforts shall be expended on the effective establishment of border trade markets.

13) The relevant authorities shall plan for and be most supportive in supplying land needed for production and business operations of privately run enterprises. If it shall become necessary for special reasons to dismantle or relocate business sites or plants, the government at the

location in question shall reach an appropriate agreement beforehand with the original user of the land.

14) The authorities in charge in medium- and small-sized cities and county market towns shall, in accordance with the overall city development plan, energetically support the reconstruction of walls and residences along the streets turning them into retail shops. They shall designate certain sections as early-morning markets, as night markets, or in residential districts designate the two sides on nonarterial roads for stalls and crowds of vendors, and also appropriately arrange for business sites for individually operated industrial and commercial businesses and privately run enterprises.

15) New privately run enterprises that are experiencing difficulties during their initial period of operations in paying legally prescribed taxes, may be granted reductions or exemptions in their industrial and commercial income tax for their first year, unless the tax law explicitly prohibits reduction or exemption of a tax for certain products or in case of the "eight small" [ba xiao 0360 1420] enterprises. If further difficulties are experienced beyond the first years, they may be granted further tax reduction or exemption, depending on the circumstances and on obtaining approval, according to the proper procedure under the current system of the tax administration.

16) Individually operated businesses and privately run enterprises whose development, production, and marketing of a new product has been reported to the relevant authority and approved by it, may, if their standards are of "national ranking," be granted two to three years of tax reduction or exemption, and if of "provincial ranking," be given tax reduction and exemption for one to two years. If their difficulties persist after expiration of the said periods, they may be granted further tax reduction or exemption on obtaining approval, according to the proper procedure under the current system of the tax administration.

17) Enterprises set up by individually operated businesses and privately run enterprises with foreign firms as joint ventures or cooperative management enterprises shall enjoy the benefits of preferential taxation policies accorded by the state to foreign-invested enterprises. Scientific and export-oriented enterprises instituted by individually operated businesses and privately run enterprises shall enjoy the benefit of preferential taxation policies.

18) Tax offices shall collect taxes from individually operated businesses and privately run enterprises according to law. Arbitrary increases or reductions in taxes are not permissible.

19) All relevant state agencies and units shall show solicitude for and shall support individually operated businesses and privately run enterprises, and shall help dispel their anxieties and resolve their difficulties.

20) In the appraisal of products, in adjudging high quality and fitness for exhibition, in import-export formalities, in the conferring of titles to their personnel, and in checking for permission to travel abroad, individually operated industrial and commercial businesses and privately run enterprises shall be treated the same as state-owned or collective-owned enterprises; examinations shall be conducted and approval granted by the authorities in charge according to prescribed procedures.

#### 5. Protection of Legitimate Rights

21) Any arbitrary imposition of fees, levies, and fines on individually operated businesses and privately run enterprises shall definitely be stopped. Apart from charges and fines prescribed by law and regulations and charges and fines authorized by the state and the provincial authorities in charge of such collections, arbitrarily decreed fees and fines, wherever and whosoever, are all invalid. Legitimate charges and fines must not exceed appropriate limits and standards. The various charges and standards shall be properly adjusted and made public. If individually operated businesses and privately run enterprises are subjected to arbitrary charges, levies, and fines in violation of law, regulations, and administrative rules, they may be firmly rejected by the associations of individual workers and associations of private enterprises, and individually operated industrial and commercial businesses and privately run enterprises shall have the right to refuse payment. They may, furthermore, report such incidents directly to the local government or to the individual and private economy leading teams.

22) No unit or government agency whatsoever may, for reasons of initiating an economic entity, leasing out business sites, providing services, and taking up shares, change the economic character of individually operated businesses and privately run enterprises, nor may they arbitrarily transfer their assets. There must be no "incorporation into one's unit" and no "linking up for support" in these business operations. The authorities in charge shall reassess the economic character of state-owned and collective-owned enterprises who are such only in name but not in reality.

23) Business licenses serve to certify the legitimate business operations of individually operated businesses and privately run enterprises. No unit or individual other than those of the state agencies in charge of industry and commerce are legally authorized to retrieve or cancel these licenses. If economic losses are inflicted on individually operated businesses and privately run enterprises by action that exceeded the authority of an agency, the person in charge of that agency must bear responsibility to compensate for such losses.

24) The life and property of those engaged in individually operated businesses and privately run enterprises

shall be absolutely protected. With due approval, security organizations may be set up at large- and medium-sized markets and integrated specialized markets. Criminal acts that infringe upon the legitimate rights and interests of individually operated businesses and privately run enterprises shall be punished according to law by the public security and judicial agencies.

#### 6. Enhance Organizational Guidance

25) Party committees and governments at all levels shall enhance their guidance of the individual and private economy. In the same manner as this has been stressed in the case of state-owned and collective-owned enterprises, the same stress should be exercised in the case of the individual and private economy. There has to be effective coordination and proper handling of the major problems in the development and administration of the individual and private economy.

26) Party committees and governments at all levels shall express strong approbation of outstanding contributions made by individually operated businesses and privately run enterprises. Every unit of the news media shall actively propagate incidents of such exemplary cases, propagate the standing and functions of the individual and private economy, so as to create a beneficial public opinion and atmosphere, favorable to the accelerated development of the individual and private economy.

27) The departments concerned shall do an effective job in organizing participation of individually operated businesses and privately run enterprises, of their own initiative and volition, at such activities as studies and training, so as to raise their overall quality. They shall encourage them to freely pursue their business interests, continuously expand the scope of their business operations, striving to become "giants *en miniature*." They shall educate and guide those engaged in individually operated businesses and privately run enterprises to abide by and implement the laws, rules, and regulations of the state and all provisions of policy, and to arrive at a state of "observing discipline and obeying the law," and of "honorable conduct of all business operations." Where conditions would be suitable for it, privately run enterprises may establish party or youth league organizations and staff and workers unions.

28) Supervision and administrative control of the individual and private economy must continuously be strengthened. Illegal activities, such as evading taxes and resisting taxation, manufacturing and selling counterfeit and spurious goods, fraudulent purchasing and selling, and gaining dominant position in the market by fraudulent means, must be investigated and appropriately dealt with. Persons operating businesses without license must be urged to register, and those still refusing to register shall be ordered to cease operations.

29) According to the party's policy of "uniting, assisting, guiding, and educating," industrial and commercial associations of all ranks shall step up efforts toward strengthening contacts between representatives of the



individual and private economy. Their education shall nurture "patriotism, respect for one's trade, and a law-abiding attitude," and their opinions and demands should be promptly made known, so that their legitimate rights and interests may be protected, and to have these associations function as effective intermediaries. They should also participate in the formulation of plans for the development of the individual and private economy, in the formulation of relevant policy, and in commending meritorious achievements. Associations of workers in individually operated businesses and associations of privately run enterprises of all ranks shall give full scope to self-education, self-administration, and mutual service among one's own members, so as to promote the healthy development of the individual and private economy.

30) The Industry and Commerce Bureau, together with relevant departments, shall formulate enforcement provisions for the present decision.

#### Mistakes of Private Economy

94CE03188 Beijing ZHONGGUO XINXI BAO  
in Chinese 12 Jan 94 p 2

[Article by Bian Yongguo (0593 3057 0948): "Private Enterprises: Get Out of Your 'Zone of Errors' and You Will Be in Heaven"]

[Text] Private enterprises are admired by state-run and collective enterprises for their flexible mechanism. After the 14th CPC National Congress established their legitimate position, private enterprises achieved unprecedented development. While the public-owned enterprises made every endeavor to adopt the strong points of the private enterprises, energetically transformed their operational mechanism, and set up modern enterprise systems, the operational mechanism of a considerable portion of the private enterprises became in certain respects imperceptibly influenced by the old mechanism of the public enterprises, came to show some of the shortcomings of these public enterprises, and also came to show tendencies of alienation. It must be realized that the reason why these enterprises had become privately operated enterprises, and why they can go on to prosper and develop, is that they have certain strong points which the public-owned enterprises do not have. If private enterprises would want to have an even better future and experience further healthy development, it is now most important for them to put a stop to the process of emulating the old mechanism of the public-owned enterprises and to get out as quickly as possible from their "zones of errors."

Having No [Domineering] "Mother-in-Law" and Wanting One, Discarding the "Grey Hat" for a "Red Hat"

Private enterprises have gradually evolved under the system of planned economy; they have grown out of public-owned enterprises, and then again grown up and developed among public-owned enterprises. It was,

therefore, only natural that the old managerial patterns of the public-owned enterprises were filtering into the private enterprises. Under the influence of such infiltration, a peculiar phenomenon has appeared: On the one hand, state-run and collective enterprises, furiously angry with their [domineering] "mothers-in-law," had thrown off their [domineering] "mothers-in-law," while, on the other hand, private enterprises are looking for "mothers-in-law" and seeking someone to act as "patron." Some private enterprise executives, including some industrialists of certain stature, are actually clamoring for and demanding that governments of every rank establish organs for the administrative control of private enterprises, and that they deputize one senior administrative official to be particularly in charge of private enterprises, thereby changing the present situation where no such forceful administrative control exists. At the same time, some private enterprises are one after another discarding their "grey hats" in exchange for "red hats," or are linking up with collectives, or set up spurious collectives, or outwardly proclaim themselves to be enterprises on the shareholding and cooperative systems, or are hanging up the shop signs of partnership businesses. It must be admitted though, that these private enterprises acting in this way thereby indicate, first of all, that their environment is not yet sufficiently unrestrained to allow for their free existence and development, so that they are in many respects worse off than the state-run and collective enterprises, and that they are therefore compelled to take countermeasures. It also indicates that the private enterprises themselves lack the spirit of self-assertion and self-reliance, the spirit of breaking new ground and forging ahead, and that they are therefore inclined to seek succor under a "red label" or "red hat" to benefit their own advancement. This is a zone of much erroneous understanding. Judging by the spirit of the Third Plenum of the 14th CPC Central Committee, the things that the private enterprises are now hoping to get are precisely what was to be gotten rid of in the reform. Many "mothers-in-law" can, of course, be helpful, but practice has proven that the disadvantages outweigh the advantages, and that they will in the end hamper progress. The "red hat" may for a time still make one's head impervious to wind and rain, but following the suppression of the "theory of the economic ingredients" [i.e. residual ingredients of other systems being maintained in the dominating economic system] this attitude may lose its effectiveness in the not too far away future. One has to get out from this "zone of error."

#### Continuing the Unreasonable Distribution System, Being Free of Them and Yet Seeking the Restraints of Conventions

A considerable number of private enterprise executives will either not dare to do anything unconventional and unorthodox because of their narrow mode of thinking; or will, on the other hand, under the residual influence of the old distribution pattern of the public-owned enterprises—some of these persons having only recently changed over from a public-owned enterprise "feeding

trough"—continue, consciously or unconsciously, the lump sum gross payroll distribution method that has been used all along by the state-run and collective enterprises. They will not dare take even half a step beyond what they assume as safe territory. Although these private enterprises are not at all unaware of the fact that they are now closely emulating the distribution system of the public-owned enterprises, they will still, wrongheadedly and erroneously, claim that they are giving a brilliant show of a law-abiding, rule-obeying attitude in their business operations, and that they are the modern type of private enterprises. In actual fact it is precisely this distribution system, now continued in docile conformity with conventions, that obliterates the flexibility in distribution in the private enterprises and weakens the most significant advantage of private enterprises. At present, all public enterprises strenuously endeavor in their reform efforts to break out from the constraints of their former conventions, widen the grading in distributions, gain the ability to raise or lower, in order to stimulate the enthusiasm of all cadre, staff, and workers. The private enterprises, on the other hand, move in the opposite direction, is that not sad. For all these reasons, the private enterprises are urged to stop assimilating with the public enterprises in these respects and are urged to go their own way, which they really ought to go.

#### **With Loud Booms and Bangs, a Craving for Hollow Reputation**

Recently, some private enterprises of quite some proportions underwent a change in that they abandoned their former spirit of frugality and turned away from their arduous and thrifty ways of trading and marketing. Now, their invitations to symposia went out to all over the world, just as the large public-run and collective enterprises used to do. On the occasion of its fifth anniversary, one private enterprise did not shrink from spending a million yuan to hire a plane for highly placed personalities to come from Beijing and other places for the celebration, arranged an order-placing meeting, and was seeking to gain a hollow reputation rather than achievements of substance. These acts result to a large extent from the old mode of business operations and marketing practiced by the public enterprises. At present all state-run and collective enterprises are eager to adopt the strong points of the private enterprises; they are continuously improving themselves. If the private enterprises are so very much bent on emulating the old ways of the public enterprises of doing business and marketing, what "strong points" will there be left in them? Only by getting out of that "zone or errors" will they be able to regain their vitality.

### **TRANSPORTATION**

**High-Speed Train Project Planning Underway**  
94CE0275A Beijing ZHONGGUO XINXI BAO  
in Chinese 15 Dec 93 p 1

[Article by Gu Dechang (6328 1795 2490): "High-Speed Trains—High-Speed Rail Construction Is Now Being

Accelerated on the Guangzhou-Shenzhen Line, With Initial Proofs Completed for the Beijing-Shanghai Line, and the First High-Speed Train Expected To Roll Around the Year 2005"]

[Text] Every Chinese, from north to south and east to west, now knows the hardships involved in buying train tickets and riding trains. Black-market train ticket transactions have become a headache for the public security sector that have not been stopped despite repeated attempts.

China's rail transport industry has grown rapidly in the over four decades since the founding of the PRC, with rail-operation mileage at 53,565 km by 1992, up 140 percent from 1949. Moreover, rail freight volume is up over 20 times, while our population has nearly tripled. So in contrast, railway construction remains severely lagging.

China's per capita rail length is now equivalent only to that of a cigarette, leaving Chinese railways ranking lower than 100th place in the world based on territorial area. As to running speed, the world has at least 25 countries with trains running at a top speed of over 140 km per hr, with running speed above 100 km per hr, while China has only a few lines on which trains run at a top speed of just 120 km per hr, with running speed generally at only 10-100 km per hr.

This low volume and slow speed, in addition to our rail transport industry being responsible for 52 percent of our passenger service and 70 percent of our freight volume, has left our railways operating at overload capacity while fighting for consumption and equipment, with rail trunk-line transport in all-out shortage, and both capital and consumer goods entering and leaving east, south, southwest, northwest, and northeast China piled up like mountains. Sichuan Province, commonly known as a land of plenty, has not even one multiple-track line, leaving Governor Xiao Yang [5135 4441] to sigh about Sichuan's productive forces being packed in a bottle. National trunk-line passenger volume is similarly exploding, with exceptional service shortages every spring. During the 1993 Spring Festival, Shanghai experienced 8 consecutive days of passenger volume averaging 560,000 a day, Chengdu had over 50,000 passengers stuck in stations, and the surging crowds in the Guangzhou station broke through six arm-thick iron railings.

So how are we to change our rail transport industry's shortages and slowness? In recent years, everyone from Central Committee and State Council officials to communications and transportation experts, scholars, and industrialists have been paying attention to and exploring this question, with almost all holding that we need to speed up the pace of our railway construction, doing all that we can to build new lines and upgrade old ones. But what sort of new lines are we to build, and how are old lines to be upgraded? I interviewed many concerned figures on these details, with most holding that



the basic way out for China's rail transport industry is to raise its running speed, by building high-speed railways. In recent years, high-speed rail construction has gradually found its way onto our economic-development agenda.

High-speed rail refers to a railway system with speeds topping 200 km per hr, using special lines with no grade crossings and absolute running safety. It concentrates high technology in fields, such as pulling force, rolling stock, line and track structure, communications signals, driver command and control, driving organization, and operating model, having advantages, such as large transport capacity, high speed, good safety, low consumption, little pollution, and small area occupied, having become the general railway-development trend in today's world.

When Japan's new east-coast trunk-line from Tokyo to Osaka began commercial operation in 1964 at a speed of 210 km per hr, it was the world's first highspeed-rail system. France's high-speed train, the TGV, began operation in 1981. Italy's Baishi highspeed train connected Milan to Rome in 1988. Germany's high-tech ICE train went into official operation in June 1991. Spain started to use a rail service system with speeds over 250 km per hour in 1992. Britain, Sweden, Switzerland, and the former Soviet Union have also built their own highspeed railways. And in addition to the European countries, others, such as the United States, South Korea, Canada, India, and Australia, are also planning their own highspeed railways. The world now has 8,000 km of highspeed railways, with the fastest running trains being France's TGV (515 km per hr), Germany's ICE (406 km per hr), and Japan's WIN350 (350.4 km per hr).

High-speed rail construction in all countries generally goes through stages, such as discussion, planning, demonstration, project-establishment, construction, and commercial operation. Japan set a 7-year record for the whole cycle, which is generally about 10 years in other countries. I learned from my investigations and interviews that China's high-speed rail construction is assimilating advanced world experience, by combining the discussion, planning, and demonstration stages into one, with a series of design and planning details now in systematic progress under the leadership of four commissions and one ministry (the State Planning Commission, the Economics and Trade Commission, the State Restructuring of the Economic System Commission, the State Science and Technology Commission, and the Ministry of Railways).

To greet the return of sovereignty over Hong Kong to China in 1997, by providing China's high-speed rail construction with a scientific experimental line, the State Council decided to build a high-speed railway from Guangzhou to Shenzhen (with a top speed of 160 km per hr and a running speed of 100-120 km per hr). In March 1990, the Ministry of Railways' S&T Research Academy formed an expert taskforce to jointly tackle the key problems involved. Then in December 1991, the official foundation-laying ceremony was held at Shilongqiao

with, by the end of November 1993, the line's bridge upgrading being basically completed, engine and car samples having been developed, and construction smoothly underway, now in the crucial stage of all-out rail-laying and station-upgrading on the whole line. Plans are for this high-speed railway to be finished and opened to traffic in 1994.

On 19 April 1992, Fujian's local railway head office signed a contract of intent with Japan's Jingkawa Trust and Investment Group, with the two parties signing on 15 July the cooperative-grounds agreement documents. This agreement provides for Sino-Japanese cooperation in building a new bullet-train line from Fuzhou to Xiamen, to be completed by no later than 1998, at which time bullet trains will speed between Fuzhou and Xiamen at 210 km per hr. While a number of factors have kept bilateral cooperation on this line from making substantive progress, leaving the bullet train still in "a sort of dream" state, concerned figures indicate that the Chinese Ministry of Railways and Fujian Province are very determined to build this highspeed railway, either as a joint venture or alone, to turn this dream into a reality.

In late September 1992, a high-level forum was held at the Jingxi Hotel in Beijing, whose theme was how to develop China's highspeed railways. It was proposed at this conference that the development of China's highspeed railways should begin with the Beijing-Shanghai line, and then proceed to the construction of the Beijing-Guangzhou and Beijing-Harbin lines.

The Beijing-Shanghai line is China's busiest north-south artery, being 1,462 km long. It runs through four eastern coastal provinces and the three large municipalities of Beijing, Tianjin, and Shanghai, connecting the two major economic zones of Beijing-Tianjin-Tang Shan and the Chang Jiang [Yangtze] Delta. Along this line, the population makes up 26.2 percent of China's population, the GVIAO accounts for 37.9 percent of China's, and the per capita national income is over twice the national average. While this line accounts for only 2.8 percent of China's railway mileage, it is responsible for 14.3 percent of China's railway passenger turnover, with a passenger-traffic density 5.2 times the national average, and a freight-volume density 3.6 times the national average. The experts hold that building a highspeed railway first between Beijing and Shanghai will be of extremely far-reaching significance to our whole national economic development.

Long before this high-level conference, experts from the Ministry of Railways and concerned departments had done much preliminary work for the building of the Beijing-Shanghai highspeed railway, studying the overall program and plan. This conference then strengthened everyone's resolve. It is understood that the Ministry of Railways' Third Research Academy has completed the "feasibility-study report for the Beijing-Shanghai highspeed railway," which holds that highspeed trains on this line will travel at 250-300 km per hr using highspeed

engines and cars, with the key equipment being purchased abroad. The whole 1,400-plus km line will be elevated and closed, and gradually developed into separate passenger and freight lines. Once the Beijing-Shanghai railway is finished, its annual passenger and freight volume will reach 100 million trips and 100 million tons respectively, shortening the travel time from Beijing to Shanghai from 17 to 6-7 hours, to make it possible to "set out in the morning and arrive by evening," not to speak of its impact on national economic development and efficiency.

As to the investment, projecting price changes, the overall investment will reach 30 billion RMB. The experts hold that the Ministry of Railways should be the major investor, paying 6-7 percent of the 3 billion yuan a year over the 10-year plan. Then, construction funds raised every year for the Beijing-Shanghai railway could amount to 15-20 billion yuan. This would ensure the funding. And provinces and municipalities along the line could also invest through shares, or use land for share-investment, to take part in the building of the highspeed railway in line with national preferential policy.

As to ticket prices, Beijing-Shanghai highspeed-rail passengers could pay two-thirds the price of CAAC airline ticket prices for the same distance. This would meet the terms for repaying the capital with interest, in addition to the possible sale of stocks and bonds, the use of foreign loans, and even the attraction of overseas technology and equipment for joint-venture shareholding.

The construction of the Beijing-Shanghai highspeed railway will promote tourism, industrial and commercial, and real estate development along the line, which will have a great impact on eastern China over the next decade.

Concerned figures and certain experts and academics have appealed to the policymaking sector to make a resolute decision as quickly as possible after detailed examination and approval of the feasibility report and further demonstration, so that the Beijing-Shanghai highspeed railway can be established as a project and put under construction as soon as possible.

Certain figures hold that if it is pushed hard, it will be entirely possible for construction to start on the Beijing-Shanghai highspeed railway in one to four years, with construction to be completed in about a decade, by which time, China's rail transport industry will have pioneered a new age.

## AGRICULTURE

### Analysis of Jiangxi Rural Labor

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14 Jan 94 pp 1, 4

[Article by reporter Li Dongchu (2621 2639 0443): "The Third Assault—Analysis of Flow of Rural Labor Force From Jiangxi to Different Regions"]

[Text] On the issue of the so-called "migrant upsurge" which has shocked the whole society in recent years, this article conducts a penetrating analysis in close connection with the actual situation in Jiangxi and in the light of the realization of national industrialization, rural urbanization and agricultural modernization. What the article says is reasonable. It is worthy of reading. The so-called "migrant upsurge" is often used from the city dwellers's point of view. From rural dwellers's point of view, it is a shift of surplus manpower in a form of rural labor export. This is precisely a major problem that we must solve in carrying out rural reform and development. After the Spring Festival, a new so-called "migrant upsurge"; that is, an upsurge of rural labor export for the new year will soon arrive. In what way can we correctly understand and deal with this major event? How can we guide it to meet the requirements of the socialist market economy? How can we handle this major event well?

If it is said that the rural household contract responsibility system with remuneration linked to output is the first assault and that the vigorous development of rural enterprises the second assault, then the so-called "migrant upsurge" is precisely the third assault to China's ossified outmoded system of planned economy in the past. This tide for reform and opening up and for development and prosperity is another creation and contribution made by peasants to China's great reform program. The current tide of civilian workers is gaining momentum year after year. It involves more and more people and covers an increasingly wider area. In addition, with the vigorous development of China's national industrialization, rural urbanization and agricultural modernization, the so-called "migrant upsurge" will further expand. Some people say that the nation-wide "migrant upsurge" involves 50 to 60 million people, while others say 70 to 80 million people. According to a sampling survey conducted by the Jiangxi Rural Survey Team in more than 2,000 rural villages in over 30 counties in the province, the number of Jiangxi peasants who work either seasonally or all the year round in other provinces reached 1.588 million in September 1992, marking an increase of 85 percent as compared with that at the end of 1991. This number rose to 2.13 million during the same period in 1993, accounting for 15 percent of the total rural labor force in the province and registering an increase of 34.2 percent over the same period in 1992.

Naturally that fact that Jiangxi's rapidly increasing export of labor to other provinces is neither accidental nor man-made. Its emergence and development are inevitable in the course of carrying out reform and promoting rural economic development in China. It is an important sign reflecting peasants' emancipation of their thought and demonstrating social progress. It has its social roots and intrinsic requirements. The following natural and strong "forces" are fostering this trend.

1. Pressure. Jiangxi has 34 million mu of arable land and a rural labor force of 14.28 million people. If a calculation is made on the basis of the fact that each peasant



handles five mu of farmland, the province only needs 6.83 million peasants for its rural areas. It would have a labor surplus of 7.45 million people. This has created a high pressure on the countryside. "Where should the people go?" Many good arrangements for the use of rural labor force have been made such as the comprehensive utilization of agricultural resources, the development of "three-high" agriculture, the establishment of village and township enterprises and the building of small cities and towns. However, peasants have also noticed that the supply of labor falls short of demand in special economic zones and the coastal developed areas. These are the places where the surplus labor force in Jiangxi's old liberated areas and less developed districts can be fully utilized.

2. Pulling force. Since the implementation of the household contract responsibility system with remuneration linked to output in the rural areas, peasants have consciously and unconsciously applied the law of value, and begun to "do whatever is money-making." If one goes out to work outside of Jiangxi, one can make 2,000 to 3,000 yuan per year. If one stays at home and carry out farming, he can only make several hundred yuan a year. Realizing the huge difference and the high remuneration, how can the poverty-stricken peasants remain indifferent? The instinct to shake off poverty and become well-to-do and the kind of natural movement that "water tends to flow to the lowland and people tend to seek improvements at all times" makes peasants feel uneasy. They will not resign themselves to being confined to the pieces of land where they have worked hard for generations. They demand to leave the farmland and their hometown, move to somewhere else and look for other jobs. As a result, peasants have tried one thousand and one ways, overcome all kinds of difficulties, endured untold hardships, crossed ten thousand crags and torrents and accepted jobs that no one else wants to become "ordinary workers."

3. Temptation. First of all, those who left their hometown send a great deal of money home. Girls who used to live in the hills have become modern "young ladies." They spend money freely, and often talk about the "beautiful world outside." They have repeatedly awakened those who live in the hilly districts and often dream about becoming rich; and induced them to make decision to go out and see the world. Those who live in the hilly districts no longer mechanically sing that "eating brown rice and burning charcoal, I am as happy as a fairy." They spread the news to hundreds of people. With the old guiding the new, their relatives calling other relatives, neighbors notifying other neighbors and friends helping other friends, they leave their farms and mountain villages in groups for Guangdong, Fujian, Jiangsu, Zhejiang, Shanghai or Beijing. The quiet old liberated area in Jiangxi is now seething with excitement.

4. Thrust. As a matter of fact, agriculture has been neglected in many localities. The comparative advantage of grain crops and cotton is small, thus increasing the thrust to the peasants to leave their farmland.

5. Force of guidance. The macro-climate in carrying out reform and the relaxed external environment have created fine conditions for the export of the labor forces. In the past, peasants were not allowed to "leave their land and hometown." Right now, peasants may go south or north to see the outside world by using their identification cards. In this connection, the government does not "conduct check-ups in villages and townships and subject those who seek to leave the countryside to the approval of the county authorities." It actually provides peasants who want to leave with information, training, services and protection. If it is said that the objective conditions provided by the reform program turns the export of the labor force into a possibility, then the enthusiastic support, guidance and services provided by the government have turned this possibility into a reality.

People's views on the "migrant upsurge" are similar to their views on the rural household contract responsibility system with remuneration linked to output and on the vigorous development of village and township enterprises. At the very beginning, people do not know much about it. Some people praised it, while others denounced it. Originally the term "migrant upsurge" was journalist language. It seems to be a derogatory term which peasants dislike. Right now, peasants are asking for a correct term for their activities to go to different districts. Experts believe that China's reform begins from the countryside. Peasants have created the household contract responsibility system with remuneration linked to output and developed the village and township enterprises. Right after that China's reform was extended from the rural areas to the cities, and attracted worldwide attention. Currently, peasants have once again brought about the flow of rural labor force to other districts. This is another great pioneering undertaking made by peasants after they had attained their right to carry out and manage their production on their own. This is something inevitable in the course of building the socialist market economy. Peasants have walked out of the countryside, out of a closed environment to the outside world, and to the society to promote development and progress by tens of millions. This is something most gratifying to the people. Peasants have further emancipated their minds. They have fiercely assaulted the dualist social structure which separates the cities from the townships and the workers from the peasants; and shifted the large number of rural surplus labor force to the secondary and tertiary industries. Meantime, they are also creating conditions for carrying out fairly large-scale operations in farming, accelerating the building of small cities and townships, developing village and township enterprises and realizing agricultural modernization.

Experts point out that people have different views on economic phenomena such as the "migrant upsurge." This is something inevitable. However, all new-born things have gigantic vitality. Following the development of the "migrant upsurge," people have finally become

more clear about the role of this tide and the profound historic significance. In the past, some people called this trend a "blind flow." They even called the "migrant upsurge" as "blind flow of laborers" and regarded such blind flow of laborers as great scourge like fierce floods and savage beasts. They also blamed "blind flow of rural laborers" for disrupting the transportation and bringing unbearable pressure to the cities.

When we examine an issue, we should always pay attention to its course, essential aspects, and the main trend. With regard to the "migrant upsurge," it should be correctly termed as an abrupt phenomenon of a large number of rural labors flowing to a certain district to seek employment without obtaining accurate information on job availability and going through the proper procedure and arrangement. Such "migrant upsurge" took place in Guangzhou, Wuhan and other localities. As for the "blind flow of rural laborers," they only happened in some areas, and they should be considered as individual cases. We cannot generalize the entire situation by citing some individual examples. Nor should we brand everything as bad. The flow of population was nothing new since ancient times. Market economy itself is "an invisible hand." It will not call itself market economy if there is no risk at all. China's railways are always quite overloaded. The traveling of a large number peasants by railway during the Spring Festival naturally gives the railway department additional pressure. The excessive number of travellers often cause disasters in some localities. However, under no circumstances should we totally negate the "migrant upsurge," and shift all responsibilities to our peasant brothers and sisters. Nor should we attribute all the problems in public security in the cities to the "migrant upsurge."

The existing problem right now is not mainly on the export of labor itself but on the fact that the relative conditions for social management still fails to keep pace with the vigorously developing situation. We will be able to offset the negative effect of the "migrant upsurge," so long as we carry out our work conscientiously, deepen the reform and achieve our goal in "orderly exporting the labor force, controlling the import of labor, providing good services to the flowing labor force, working out measures to make readjustments and handle emergency cases."

At the very beginning, the Jiangxi Provincial CPC Committee and the provincial government have paid great attention to the export of labor. They have carried out their work in this connection actively and on their own initiative. As early as in 1987, Governor Wu Guanzheng had already said that on the basis of the rapid economic development in the coastal areas, Jiangxi must implement the policy of "supporting the export of labor, working out follow-ups and replacing those who have left." He called for efforts to keep the doors of Jiangxi's mountain villages wide open and vigorously organize those who wish to leave to go to the coastal areas. The offices under the administration of the provincial government set up in Guangzhou, Shenzhen, Amoy, Shanghai and Beijing regard the export of labor from

Jiangxi as a major item in their work. The party and government departments in various localities in the province have consciously regarded the export of labor as another task in support of rural economy after the vigorous development of village and township enterprises. Work stations to help labor export have been set up in various prefectures, cities, counties and townships in Ganzhou, Jian, Shangrao, and Fuzhou where there is a larger number of surplus labor. There are departments and people specially assigned to provide guidance and to serve, help, protect and help those who seek to leave the province. Some localities have also made follow-ups to truly help millions of peasants who wish to leave the province to work in other provinces and to solve their problems.

As for the labor markets operated by nongovernment organizations, various localities have adhered to the principle of not trying to interfere with them, drive them out of business or making things difficult for them. They allow, encourage, and help them adopt all types of forms and measures to export labor. In order to alleviate the pressure on the railway transportation imposed by such "migration upsurge," Jiangxi has made full use of its geographical superiority to facilitate the flow of labor out of the province. Many localities have sent out buses to Guangzhou, Shenzhen and Shanghai for use by workers from Jiangxi, winning wide acclaim from the large number of civilian workers and the railroad department. During this year's Spring Festival, the Jiangxi provincial government made special arrangements and called on various prefectures (cities) and counties to take initiative to make things easy for workers out of Jiangxi to return their hometown in the province to spend their Spring Festival. It urged them to dispatch persons or send out buses to places where most of workers from Jiangxi are working to help them come back and return. A provincial-level leading comrade said that we will be able to help our rural labor flow smoothly to various districts in good order; promote what is beneficial and abolish what is harmful; and steadily and healthily develop this trend, so long as we have the government guidance and market demands, keep traffic open between cities and the countryside, adopt various measures to help the flow of rural labor, provide good socialized services and improve the legal system in this connection.

#### Survey of Shanxi Peasant Burdens

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16 Dec 93 p 4

[Article by reporter Liu Junxiang (0491 0689 4382):  
"Survey of Situation in Shanxi Province To Reduce  
Peasant Burdens]

[Text] Not long ago, our reporter accompanied the law-enforcement and inspection team of the State Council on peasants' burdens to go to Shanxi Province to check how the government policy on reducing peasants' burdens is being implemented. Since the beginning of



this year, especially since the announcement of the joint emergency circular by the two general offices on 19 March, the Shanxi Provincial CPC Committee and the provincial government have explicitly abolished, corrected, annulled and prohibited those documents, fee-collecting measures and erroneous practices which run counter to the provisions of the "Regulations" announced by the State Council. The State Council's policy on peasants' burdens (which should not exceed 5 percent of their per capita net income) is being basically implemented in Shanxi. According to an estimate, peasants' burdens were reduced by 261.739 million yuan this year and their per capita burden dropped by 11.69 yuan, representing 2.18 percent of their per capita net income in 1992. Measures have also been taken to reduce peasants' burdens in the 435 funding programs for the 1992 fiscal year, which had exceeded the 5 percent limit as specified by the State Council, accounting for 64.7 percent of the total amount to be reduced and amounting to 75.154 million yuan.

#### **Burdens Hurt Peasants' Feelings**

Are peasants' financial burdens in Shanxi Province heavy? To what extent do peasants suffer from such burdens?

According to the 1992 annual statistic report on peasants' burdens, there were four prefectures and cities, 42 counties and 672 villages and townships where taxes and charges levied on peasants on a per capita basis exceeded the 5 percent limit specified by the "regulations." Those villages and townships where peasants' burdens exceeded the 5 percent limit were mainly in the farming areas in the grain-producing farming areas and remote mountainous districts in Xinzhou, Luliang, Jinzhong, Linfen, Yuncheng, Yanbei and Changzhi. The number of villages and townships in the Xinzhou Prefecture, where peasants' burdens exceeded the limit accounts for 72 percent of the total number of villages and townships in the prefecture. According to surveys conducted in various localities, there are more than 100 different funding programs in most of the prefectures and cities. A survey in 51 townships and 171 villages in Linfen prefecture shows that as many as 123 different types of charges and fees are being levied on peasants by 48 different departments. Peasants in some localities are unable to withstand the unreasonable apportionments and excessive charges on them. Such apportionments and charges have also affected the relationship between the party and the masses and shaken the people's confidence in the party. For example, the authorities in Hongzhiyi Township in Yuncheng City increased the agricultural tax and imposed unreasonable service charges on peasants. When peasants could not afford to pay, the authorities then organized public security personnel with handcuffs to collect fees and taxes. They had illegally assaulted peasants, and detained 10 peasants and students in six villages.

#### **Cases Are Investigated and Handled To Win People's Confidence**

The Shanxi Provincial CPC Committee and the provincial government have decided to regard their task in alleviating peasants' financial burdens and tackling the issue of peasants' heavy burdens as one of the two major tasks in rectifying the party style and building a clean and honest government. While organizing their staff members to screen all relative documents and carry out self-examination and correct their own errors, they have also investigated and handled several typical cases in which some authorities at the different levels have violated laws and discipline to increase peasants' financial burdens.

An incident occurred at the end of 1992 in Shentangping township, Kelan County. The head of the township and a secretary of the township party committee, together with judicial and public security personnel with handcuffs and truncheons, broke into 30-odd peasants' houses in Kangjiahui Village to collect fees and charges. They took away peasants' television sets, sewing machines, bicycles, push carts, furniture and grain crops. The provincial, prefectural and county authorities jointly investigated the case and timely took disciplinary actions against those lawbreakers who were involved in the incident. The authorities also returned all the belongings taken away from peasants' houses and apologized to the peasants for the wrongdoing.

Eight peasant families including one headed by Liu Hailian moved into the Zhaizi Village in Zhongyang County several years ago. This year, the villagers committee decided to impose another 1,000 yuan on each family for "moving into the village" in addition to the 1,000 yuan it had already collected, otherwise no farmland will be allocated to them to grow their grain crops. Peasants of these eight families appealed to the provincial authorities for help. After receiving the appeal, Secretary Hao Tianxi of the Zhongyang County CPC Committee, immediately assigned someone to look into this matter and solved the problem in three days. Peasants jubilantly said that the party and the government fully support us. We must work hard to carry out production in order to repay the leading comrades for what they did for us, they added.

#### **Unreasonable Charges Still Prevail**

Since the general offices of the CPC Central Committee and the State Council issued the "Emergency Circular on Realistically Reducing Peasants' Burdens" on 19 March, especially after the telephone conference sponsored by the State Council on the work of alleviating peasants' burdens, the Shanxi Provincial CPC Committee and the provincial government have paid even greater attention to reducing peasants' financial burdens. Besides abolishing the "three advocacy's and five consolidation's", they have stopped implementing all documents and regulations on collecting fees from peasants. Later, they screened all documents from the top level to the bottom

level, while carefully examining all funding programs from the lower level to the higher level in various localities. According to statistics, 2,977 documents and 3,378 funding programs concerning peasants' financial burdens were screened, and a total of 449 erroneous practices which violated the "regulations" of the State Council were prohibited.

When all documents on peasants' burdens were carefully examined, unreasonable charges were canceled and erroneous practices which violate the "regulations" of the State Council were prohibited. Normally no one should dare to impose any unreasonable charge on peasants. However, this was not true. Even in August 1993, there remained some departments and townships which still seriously violated the guideline laid down by the "Emergency Circular" of the two general offices. They defied the orders and the prohibitions, and continued to collect unreasonable fees from peasants. Our reporter cited the following examples during his tour:

From May to September 1993, the Bureau of Electric Power, the Bureau of Land and the Bureau of Farm Machinery in Pianguan County continued to collect electric power maintenance fee, land registration fee and farm machinery administration fee at the township level.

From April to July, 11 departments in Yangcheng County including the Bureau of Land, the Bureau of Farm Machinery, the Bureau of Electric Power and the Bureau of Communications still illegally collected fees of 28 types from peasants totaling 2.43 million yuan. Twenty of the 25 townships in Yangcheng County continued to illegally levy fees on peasants. The number of such illegal funding programs reached 27, totaling 2.74 million yuan.

The Bureau of Communications in suburban Jincheng City laid down a rigid rule demanding that each of the 31 villages in the Jinmiaopu Township buy two sets of videotape called: "Eight Diagrams Specified by the Book of Changes [one of the 'Six Confucian Classics']". It collected 39 yuan for each set.

From March to August, one township and six units in Qinshui County still violated the guideline laid down by the documents of the central, provincial and city authorities in this connection, and continued to illegally collect fees from peasants for the development of collective economy.

The Bureau of Civic Affairs in Lingchuan county demands that all young people who wish to register for marriage must attend a "pre-marriage class," watch a videotape for the newly wed and buy a book, an audio cassette tape and two badges. It collected 40 yuan from each registrant for all this.

After all the aforementioned problems were discovered, the Pianguan county and the various counties under the administration of the Jincheng county had seriously handled all these cases on time. Most of the fees collected had been returned.

#### Peasants Still Dare Not Radiantly Smile Yet

"After paying enough to the state and retaining enough for the collective, what is left belongs to peasants themselves." This is the people's general impression on their income from labor after the implementation of the system under which production groups assume full responsibility for the fulfillment of production plans in the rural areas in 1983. In fact, this has become the basis on which the collective collects money from peasants. During our reporter's surveying trip, many peasants said that there are figures based on which we make payments to the state, but there are no figures to show the exact amount of money which we need to pay to the collective. How much is "enough"? There is no definite figure. It has become a system under which we must pay what we are asked to pay. When our reporter mentioned the abolishment of the miscellaneous funding programs and the provision specified by the State Council that all the fees collected at the village and township levels "should not exceed 5 percent of the peasants' net income," they jubilantly said that now there is a highest limit and that the collective can no longer collect money beyond the limit.

In order to effectively control peasants' financial burdens and prevent these erroneous practices on peasants' burdens from resurfacing, a card system on peasants' financial burdens has been set up on a provincial basis. The "Control Card for Peasants' Burdens" has been issued to 5.95 million farming households free of charge. When our reporter conducted his survey and called on peasants in Pianguan County, Pingyao County and Qinshui County, he saw these cards on several occasions. The portion of the peasant's total income for (budgeted) public accumulation at the village and township levels that the subject peasant must pay and the number of work days for community work that he or she must contribute for this year were clearly written out on the card which is often regarded as peasants' "amulet." "With this card on hand, we feel at ease. We know how much we should pay and how many work days of labor we should contribute," said peasants.

The party committees and the governments at various levels have removed the shackles on peasants so that peasants can take a deep breath and straighten themselves. They are happy and smiling. However, they are still somewhat worried about the possibility to find their burdens once again increased after the autumn harvest and their hope dashed. Peasants are worried amidst their joy. What do the policy and law enforcing cadres at the county, township and village levels think about all this? Not long ago, the Law Enforcement and Inspection Team of the State Council on Peasants' Burdens distributed questionnaires among village and township cadres in 143 counties in Shanxi Province. Among the respondents, 9.1 percent of cadres said that they would follow the instructions of their superiors. When our reporter conducted his survey in the Nanyijian Township in Pingyao County, a township party committee secretary bluntly said: "We will collect more fees after the autumn

harvest, if our expenses exceed our budget." Although there are not many cadres who belong to this category, their fuzzy legal concept and unhealthy work style in defying orders and prohibitions cannot but make peasants feel uneasy.

We should no longer hurt peasants's feelings. Let us hope that there will be no relapse in the future.

### CASS Report on Grain System Reform, Issues

#### After Grain Market Deregulation

94CE0285A Beijing JINGJI CANKAO BAO in Chinese  
12 Jan 94 p 4

[Article: "Facing Issues in the Wake of Grain Market Deregulation"]

[Text] Editor's Note: China's grain problem is a major topic of international significance. Grain system reform in China's market economy has become a hot spot to which economists and government policy departments pay close attention. Thus, this newspaper is printing portions of the key problems research report (the full text of which consists of approximately 70,000 words) of the Rural Development Institute of the Chinese Academy of Social Sciences. This report was managed and written by the noted agricultural economist, Mr. Deng Yiming (6772 0001 7686). It is hoped that this report will cause more experts and scholars to pay close attention to and further examine the problem of grain market reform.

By now grain prices have been substantially deregulated throughout the country, and grain markets have been opened up. However, because of the incompletely developed market mechanism as well as frictions between the new and the old systems, some new problems will unavoidably appear in the wake of grain market deregulation. Only by facing these problems squarely can reform be further intensified.

#### The Grain Price Fluctuation Problem

Price fluctuations are unavoidable during the period of change from planned grain procurement and marketing to a market mechanism. The reasons are three:

1) The peasant household grain self-sufficiency rate is high, but the commodity rate is low.

In China, approximately 80 percent of the population is engaged in agriculture, and the grain self-sufficiency rate is approximately 70 percent. Thus, during lean harvest and bumper harvest years, the decline and rise in the market supply of grain is greater than in a country in which all grain is commodity grain.

2) The peasant household degree of self-sufficiency is high, but the elasticity of supply and demand is slight.

In China, where the degree of self-sufficiency in grain production is fairly high, the elasticity in grain supply and demand is much lower than in a country where all

grain is commodity grain. According to price elasticity theory, when the supply and demand curves change causing a rise or fall in prices, supply and demand curve elasticity determines the size of the price change. In China, which has high self-sufficiency in grain production, once the grain market is deregulated, market price fluctuations are bound to intensify because of the low elasticity of supply and demand.

3) The risk avoidance behavior of grain producers and consumers.

Chinese peasant households farm on a very small scale, each household farming an average 6.4 mu. The same applies to the scale of products farmed. The commodity grain rate is low, each household supplying approximately 600 kilograms of commodity grain a year. Storage capacity is very small. Peasant household reaction to market prices is very much the same. In bumper harvest years when market supply increases, grain prices fall. Peasant household expect prices will fall further, so they rush to the markets to sell off their grain. This causes a sudden increase in the grain supply. Supply is far greater than demand. This drives grain prices far down. In lean harvest years when market supply declines, grain prices rise, and peasants expect that prices will rise further. They hoard their grain, thereby further decreasing the supply of grain in the market. This drives prices up, intensifying market grain price fluctuations.

In China, city and town residents are the main grain consumers. An overwhelming majority of them have low incomes, so they are unable to withstand great ups and downs in prices. Market deregulation, which causes a slight grain shortage, frequently results in panic buying, which causes a tremendous rise in grain prices in turn. When grain market prices fall, urban residents expect that grain prices will continue to fall. A wait-and-see attitude results in low market demand for grain, so the market price continues to fall. The foregoing features of grain producer and grain consumer production and consumption is risk avoidance behavior following the setting of grain prices by the market. This behavior seeks to reduce to the minimum both production and consumption risk.

#### The Problem of Grain Price Differences

During the period of state monopoly procurement and marketing, the price paid peasants for their grain was held down in order to industrialize rapidly, and transportation expenses were borne by the state. This permitted the maintenance of low consumer prices, which were in keeping with low consumer wages. Thus, industry made super profits. However, this dampened peasant interest in growing grain, thereby accentuating the difference between supply and demand for grain. In order to increase the grain supply to ameliorate the difference between supply and demand, the state had no



choice but to raise the grain procurement price tremendously during the late 1970s while keeping the consumer's price the same. This produced a grain production and consumption price inversion, the shortfall made up by the state treasury. By 1990, the public grain subsidy amounted to 42 billion yuan. The treasury found this to be an unbearable burden, so a rise in the sale price of grain became imperative. As a result of two consumer price rises, the procurement and the market price has become identical. There is virtually no difference between the grain production and consumption price. The next step will be to deregulate grain markets, impelling grain producers, dealers, and consumers toward the market. Once grain markets have been deregulated, the grain production and consumption price difference is expected to widen.

1. Analysis of the reasons why the grain production and consumption price will widen following grain market deregulation.

First is system change factors. Following grain market deregulation, the state will abolish government subsidies to producers and dealers. The following formula will be used to handle prices between producers and consumers: grain producer price + grain dealer price (transportation and selling costs + profit) = consumer price. The identical buying and selling price will become history. Second is transportation and marketing system efficiency factors. The size of the difference between the grain producer and grain consumer price depends on the efficiency of the transportation and marketing system. If efficiency is high, the difference is small; if efficiency is low, the difference is great. The current state of China's transportation and marketing system is as follows:

First, more than 90 percent of the dealings in commodity grain in China are by state-owned grain enterprises. Once grain markets have been deregulated and state-owned grain enterprises are pushed into the markets, they will very likely become grain corporations of a monopoly character that manipulate market grain prices to garner super monopoly profits. This will widen the difference between the production and consumption price. Second, since the scale of production and consumption of China's grain producers and consumers is small and extraordinarily scattered as well, in addition to which the infrastructure is antiquated and markets are greatly cut up, transportation and marketing system profits and storage losses are very great. Once grain markets are deregulated, bank interest rates will rise again. That will dramatically increase transportation and marketing costs, thereby leading to a widening of the production and consumption costs. Third, China's road and communications facilities are antiquated, and markets are very much chopped up weakening contact among markets. In addition, storage facilities are inadequate. Storage losses are great and costs are high. This increases the difference between grain producer and consumer prices.

2. Detrimental effect of the widening of the difference between grain production and consumption prices.

Once grain markets are deregulated and the difference between grain production and consumption prices widens to a certain point, the result will be detrimental to both producers and consumers, and ultimately the damage to people having low incomes will be greatest. Politically speaking, the peasants grumble about too low grain prices. They wish grain prices were somewhat higher so that their income would be somewhat greater. Consumers complain about grain prices being too high. They wish grain prices were somewhat lower so that they did not have to pay as much. This puts pressure on the government. In addition are problems such as the price risks of grain producing areas and needy marketing areas.

### Reforms in Price System

94CE0285A Beijing JINGJI CANKAO BAO in Chinese  
12 Jan 94 p 4

[Article: "Straightening Out the Grain Price Control System"]

[Text] Government's macropolicy on prices powerfully affects the macroclimate for market reform of the grain system. Therefore, in the process of carrying out reforms whereby the market regulates the buying and selling of grain, corresponding changes must be made in the macroeconomic price system. Reforms must be made to straighten out the overall price system and grain production, transportation and marketing, and relations among microeconomic consumption systems, as well as to reduce frictions between the macroeconomic system and microeconomic systems, and to stimulate smooth market reform of the grain system.

### Grain Prices

Grain prices hold a key position in the overall price system. They are the most important tool that the government can use to guide the national economy toward intended development goals. Once grain markets are deregulated, prices are determined by market supply and demand; hence, overall prices, including exchange rates, profit rates, wage rates, and tax rates should be decided by the market supply and demand mechanism. Using the market mechanism as the orientation, the following two things must be done to straighten out the relationship between the grain system and overall prices.

#### 1) Raise the Relative Price Level of Grain

It is the relative price level of grain that determines the rate of return from peasant grain farming. This is to say that given a set grain price, if the prices of things need for grain production are low, returns from the growing of grain are large. Conversely, they are small. Before the deregulation of grain markets, the relative prices of grain and products other than grain were government regulated and controlled. Despite the low price that the

government paid for grain, prices of products other than grain were also relatively low, so the difference in the price ratio was still not too large. Following deregulation of the grain markets, the relative price level of grain will be determined by the market mechanism. Then, the price of grain may decline relative to the price of products other than grain.

The reasons for this are, first, grain supply and demand elasticity is less than the elasticity of supply and demand for products other than grain. When market supply and demand determines the price of grain and products other than grain, the relative price of grain may steadily decline. Second, the production cycle for grain is longer than for industrial goods, funds turn over more slowly, the fixed assets utilization rate is lower, and prices change much more slowly. Grain production is prone to disastrous weather conditions, diseases, and insect pest infestations. Sometimes a devastating natural disaster occurs that results in no output from all the inputs. Grain production technology also advances much more slowly than for industrial production. All these factors cause an increase in grain production costs.

Third, grain prices rise more slowly than prices of industrial goods. This is mostly because of the numerous industrial production links in which products go through multiple processing by industrial concerns, each processing increasing the price. This causes a steady rise in prices. Grain, however, is purchased from the peasants for shipment to grain shops. Its original state is not changed. Even if it is processed, the number of processing steps is relatively small. Consequently, the price changes slowly, the relative price of grain steadily falling.

The drop in the relative price of grain will lead to a steady worsening of trading conditions between industry and agriculture, and a steady decrease in peasant earnings. This will have an extremely adverse effect on the macroeconomy. Therefore, following grain market deregulation, decline in the relative price of grain must be prevented to increase the peasants' income.

## 2) Straighten Out Relationships in the Overall Price System

The relative price of grain is the key element in the overall price system. Once the relative price of grain is increased, a portion of government fiscal and consumers income will be transferred to the grain producers. This will necessitate a rise in consumer wage rates for otherwise the standard of living of urban staff members and workers will fall. Hidden taxes must be made open. If the peasants' unreasonable burdens can be halted, the grain tax rate may be correspondingly increased.

## Raise Interest Rates

Once grain markets have been deregulated and a market mechanism has been largely established throughout the country, interest rates will have to be increased for the following reasons:

1) The need for capital will increase tremendously. Take grain production, for example. Ministry of Finance plans show expenditures for agriculture of 250 billion yuan by 2000. Such expenditures are needed to attain the goal of increasing grain output from 300 million tons to 520 million tons by 2000. They include an anticipated expenditure of 26.7 billion yuan renminbi for investment each year.

This plan calls for 60 percent of this money to come from peasants savings, only 10 percent being provided by the state. Realization of this magnificent goal will require raising interest rates in order to induce the peasants to increase savings.

2) Low interest rates lead to banks diverting to other purposes credit that should be used for grain procurement. Loans are provided to urban industries or township and town enterprises in order to earn better interest. This leads, in turn, to grain enterprises diverting credit to operate tertiary industries, to build dwellings, and to buy bonds.

## Establishing Grain Price Stabilization

94CE0285A Beijing JINGJI CANKAO BAO in Chinese  
12 Jan 94 p 4

[Article: "Found a Grain Price Stabilization System"]

[Text] In order to solve the problems that may occur in the grain system in the wake of grain market deregulation, the government will have to thoroughly reform the macroeconomic regulation and control system. It will also have to straighten out the interrelationship between the internal and external grain systems under the market mechanism to make them more in keeping with the market operating mechanism, thereby improving the operating efficiency of the internal and external systems.

The grain market stabilization system involves the inter-related roles and coordination of numerous stabilization factors. The application of a single factor will positively not attain the goal of market stabilization. These stabilization factors include: a floor price, a ceiling price, cushioning reserves, a stabilization fund, a futures market, exchange rates, and grain imports and exports.

## Setting of the Floor Price

The level at which the floor price is set affects the transfer of benefits among the state treasury, the peasants, consumers, and dealers. If the floor price is set too low, though government expenditures may be reduced, and though grain dealers and consumers may also benefit somewhat, the peasants' interests will not be protected. If set too high, no benefit will accrue to grain dealers, consumers, and the industrial sector, and government expenditures will also increase. We believe the standard for setting the floor price should be 95 percent of the average market price for the previous five years, this amount serving as the floor price for the coming year.

### Setting of the Ceiling Price

On the basis of the experience of developed market economy countries, stabilization of grain market fluctuations within 15 to 20 percent is deemed a very great success. How to set China's ceiling price will depend on transportation and marketing system expenses and profits following grain market deregulation. Inasmuch as China's treasury is short of funds today, setting the ceiling price at between 15 and 20 percent of the floor price will be rather difficult. Our view is a widening to between 20 and 25 percent.

In addition, grain import and export prices must be taken into consideration in setting the ceiling and floor prices of grain. The floor price should not be lower than the grain export price, and the ceiling price should not be higher than the grain import price.

### Cushioning Reserves

Cushioning reserves are an important tool in government grain market stabilization. In bumper harvest years when grain prices fall, in order to prevent a further slide in grain prices, the government should buy grain from the peasants at the previously formulated floor price to produce an upturn in the market grain price that protects the peasants' interests. In lean years when grain prices rise above the ceiling price, the cushioning reserves may be used to buy grain to be dumped on the market to drive down market grain prices thereby protecting the consumers' interests. The cushioning reserve entails the use of a loading and unloading mechanism to maintain a floor price and a ceiling price that stabilizes market grain prices. The practice of developing countries shows this to be a stabilization method for which an extremely high price must be paid. During consecutive bumper harvest years followed by consecutive lean harvest years, in particular, it becomes extremely difficult to hold down to the lowest level the quantity of grain in storage and costs. Therefore, use of the cushioning reserve to stabilize markets must be applied flexibly in combination with the grain import-export mechanism. If very ample storage facilities are available, grain may be imported when the international price is relatively low rather than when a shortage occurs. When the world market price rises, grain may be exported. This can reduce the effect internally of world grain market price fluctuations. In addition, the profits earned by importing at low prices and exporting at high prices can be used to pay storage costs.

A cushioning reserve does not necessarily entail losses. If sufficient difference is allowed between the floor price and the ceiling price, and management is effective, it is possible to pay for its entire cost.

### Stabilization Fund

A stabilization fund is an important means that government can use to stabilize grain market prices. It provides financial support for stabilization of the system. The two main means of using a stabilization fund to stabilize grain markets that all countries employ are as follows:

First is to apply it in combination with the cushioning reserve, and have it serve as financial support for the cushioning reserve. Its main function is to ensure that government has the funds to purchase the peasants' grain at the floor price. Its other functions are to provide peasants loans, to import grain, and for other government-approved purposes. Second is the use alone of the stabilization fund to stabilize the market. In a bumper harvest year when grain prices fall below the floor price, the stabilization fund is used to subsidize the peasants for the price difference. In a lean harvest year when grain prices exceed the ceiling price, grain producers contribute to the stabilization fund.

The main source of money for the stabilization fund is state disbursement of public funds. A smaller amount comes from grain producer payments, and from the profits of grain dealers. Following deregulation of China's grain markets, the peasants' "three links" [the linking of parity price sales of fertilizer and diesel fuel to peasant fulfillment of grain production quotas] subsidy, the agricultural tax, and the six subsidies to grain enterprises may be lumped together in the grain stabilization fund for payment to the State Grain Reserve for use in purchasing cushioning reserve grain and for grain imports and exports.

### Founding of Futures Markets

Investors futures trading plays an important role in the stabilization of market grain prices. During a bumper harvest year when supply is greater than demand and market prices fall, futures buyers can make large purchases of futures contracts, thereby increasing grain market demand. This produces a balancing trend between market grain supply and demand, which restrains a drop in the grain price. During lean harvest years when supply is less than demand and grain prices rise, futures contract sellers can dump large quantities of futures to cause an increase in market grain supply that eases the grain shortage and restrains a rise in grain prices. Therefore, by buying when grain prices fall and selling when grain prices rise, futures traders produce a trend toward balance in market supply and demand for grain to attain the goal of stabilizing grain market prices.

### Regional Specialization of Farming

94CE0285A Beijing JINGJI CANKAO BAO in Chinese  
12 Jan 94 p 4

[Article: "Regional Specialization of Farming"]

[Text] We propose abandonment of the policy whereby "every family grows grain, every household being small but all inclusive," instituting regional specialization of grain farming instead.



### Necessity for Grain Region Specialization

First of all, the principle of comparative benefits requires regional specialization of grain. The tremendous difference between one region and another in the quantity and quality of natural and economic resources forms a basis for regional specialization. Places relatively rich in resources are better suited to the production of the commodities they can produce in abundance. The price of the commodities that they produce by using the resources they have in abundance is lower than in other regions. If the price of a commodity differs between two regions, a profit can be made from the development of regional trade.

The specialization that stems from comparative benefit enables a region to produce more goods for shipment; it stimulates investment in and expansion of low cost industries; and it forces high cost industries to cut back production, thereby strengthening regional specialization.

Second, the multiple value effect of regional grain specialization is increased. Regional growth that is based on regional specialization and for which trade between regions serves as a vanguard means that shipment of specialized commodities promotes other industrial sectors. Grain area specialization that increases grain shipments can increase demand for commodities such as chemical fertilizer, electric power, farm machinery, agricultural pesticides, plastic sheeting, and diesel fuel. This role is termed a follow-on relationship. The development of grain specialization can also promote the development of grain processing industries. This role is termed a precursor relationship.

Third, grain region specialization helps increase the grain labor productivity rate. Grain crops are living plants whose biology must be matched to a proper living environment if they are to produce commodities of good quality in large amounts. Growing grain crops in areas that lend themselves to production and from which economic returns are high enables laborers to accumulate production experience and helps improve specialized skills; thus, regional specialization means relatively high labor productivity rates.

Fourth, grain region specialization can impel the peasants toward a market economy. In China, more than 80 percent of the population are peasants who produce grain largely for themselves. The amount of commodity grain produced for consumption by the remaining 20 percent of the population in cities and towns is extremely limited. Grain region specialization demolishes the existing self-sufficiency economy in which "every family grows grain, every household being small but complete." When specialized farming of grain is concentrated in certain areas, the marketing areas that formerly produced grain to supply their own needs withdrawing from grain production, the grain marketing area has to use its own cash crops or industrial goods in exchange for grain from producing areas. Regional specialization of grain increases the amount of demand for commodity grain; it

opens rural markets for grain. Even when grain prices fall, sales increase. The multiplied sales may very likely be greater than the former total income. In discussing the regional specialization of grain, we emphasize the comparative advantage principle, but from the standpoint of the growing of grain in specialized areas and peasants obtaining maximum income, the diversification principle is also extremely important. Since grain crops are highly seasonal, three problems unavoidably arise.

One is that if nothing is done but farm grain, during the winter season there is no work to do. The work force and the means of production are idle. Second, income distribution is uneven during the year. Third, the time between planting and harvesting of grain crops is inordinately long. The crops may sustain a natural disaster, which damages the peasants' income. Grain farming alone carries very great risks, so objectively diversification is needed. Grain crops and other agricultural sectors are interdependent and promote each other's development. The development of one can spur the development of all the others. Damage to one means all the others are limited. Only diversification can bring the greatest returns.

### Grain Region Policy

In view of the comparative benefit principle, we believe that grain production should be developed in grain producing areas and in needy marketing areas by instituting specialized farming. The state treasury and financial policy should tilt a great deal toward these two areas so that the income peasants receive from the growing of grain in these two areas is no lower than income from other than agriculture. The state should ensure that grain prices in these two areas cover costs plus the average profit rate in society, commodity grain for the whole country being mostly provided by grain producing areas, needy marketing areas striving to attain self-sufficiency.

### Grain Shipping and Marketing System Decisions

Following grain market deregulation, the grain shipping and marketing system functions should be performed entirely by the market, all grain procurement, marketing, shipment, and storage being carried out through the market. Market prices should be set on the basis of market supply and demand.

### Decisions About Grain Shipping and Marketing System Goals

The ultimate goal of the grain shipping and marketing system is to narrow the market price difference between grain producers and consumers, permitting both grain producers and consumers a relatively satisfactory price. Narrowing of the production and marketing price gap requires lowering of shipping and marketing costs first of all. Second, it requires improvement of shipping and marketing efficiency as well as the elimination of monopoly to enable the greatest market contact with

traders, but not on too large a scale so that their decisions do not manipulate market prices.

#### **Microeconomic Decisions of Shipping and Marketing System Enterprises**

In the provinces and cities that have already deregulated their grain markets, grain retailing enterprises work through markets: Government subsidies have either been abolished or will be abolished within three years, and the wages of staff members and workers will be uncoupled from state wages within a limited period, thereby making grain retailing enterprises truly responsible for their own profits and losses, for developing themselves, and for limiting themselves. Thus, all enterprises in the shipping and marketing system are facing a market competition environment. They no longer perform the task of stabilizing market prices, this task being borne by the state-financed stabilization system, i.e., it is borne by the State Reserve Bureau system. This is not to say that the two systems have no relations with each other. In a market economy, the two systems are interdependent and mutually restricting.

In a true market economy, the profit that shipping and marketing businesses make is the difference in the price paid to the producer and the price paid by the consumer. If they buy grain when prices are low during the grain harvest period, store it, then sell it in a non-harvest period when grain prices have risen, they earn a seasonal price differential. They may also make a profit on arbitraging the grain market price differential in different areas. However, if most grain traders arbitrage, the price differential between one area and another tends to disappear. The difference between the price paid the producer and the price obtained from the consumer includes not only the seasonal price difference, but also the additional price of shipping and processing. This means that each time the grain passes through a shipping or marketing link, an additional price is added to the price paid the producer.

#### **1. Shipping and Marketing System Storage Decisions**

Grain production is strongly seasonal. If the off season price is very much higher than the harvest season market price, the retailer can buy it at a low price during the harvest season, store it, and sell it at a much higher price during the non-harvest season. Grain dealers have to contend with the market climate. Just how much grain they buy to store has to do with the following year market price forecast as well as whether bank interest rates will rise. It has to do with the four way division of profits among the state, grain dealers, producers, and consumers.

#### **2. Grain Dealing Enterprises Arbitrage Decisions**

Once the grain market is deregulated, the unevenness of grain supplies in different areas will mean a substantial difference in market prices between one area and another.

In a market economy, grain dealers have information showing that grain prices are lower in one market than in another. They buy grain from the low price market and ship it to the high price market where they sell it for a profit. If many market dealers are doing the same thing, the prices in different markets tend to even out, the price differential disappearing. This is because supplies in the low price markets decline causing a rise in prices, while supplies in high price markets rise causing a decline in prices. Thus markets in different places are linked together by their arbitrage decisions of traders with the result that price differences between markets reflect only normal shipping and marketing costs.

#### **How Government Intervenes in the Shipping and Marketing System**

Since shipping and marketing are replete with numerous external factors such as an extreme grain shortage in multiple natural disaster years, market regulation will result in a tremendous rise in grain prices, which consumers will find hard to bear. Likewise in exceptional bumper harvest years, grain prices will fall tremendously occasioning enormous losses for the peasants. The existence of these external factors means that market laws no longer apply. In addition, highly efficient transportation and marketing systems require highly efficient communications, transportation, and storage facilities. They require that all contract regulations and statutes be carried out, and they require credit for storage and processing, and the provision of market information for all market participants... These can be built only with government investment. Therefore, modernization of the grain shipping and marketing system requires improved efficiency. Government must intervene to the proper extent.

The goal of government intervention in the shipping and marketing system is to narrow the difference between the price paid to producers and the price charged consumers. The size of the difference in this price depends on the shipping and marketing system's actual costs and the efficiency of the services that the shipping and marketing system provides the market. If costs are high, government can increase investment to lower shipping and marketing costs. For example, it may lower state-owned granary rent, or it may issue low interest loans to the shipping and marketing system. It may also provide special shipping price subsidies for railroad and highway grain shipments. If shipping and marketing system efficiency is low, the government should improve market competition conditions to conditions for all market participants to enter the market, or provide better information. However, for government intervention to be beneficial, skill in intervention must be emphasized. While enlivening the macroeconomy, a good job of macroeconomic management and coordination must be done.

**Grain Production Decisionmaking**

94CE0285A Beijing JINGJI CANKAO BAO in Chinese  
12 Jan 94 p 4

[Article: "Grain Production System Decision Making"]

[Text] The grain system includes the grain production, shipping and marketing, and consumption systems. The main entities in these three systems are the grain producers, dealers, and consumers. Once the market controls grain dealings, the macroeconomic decisions of the three major entities will be of crucial importance.

Government's macroeconomic decisions are the external climate in which peasant microeconomic decisions about grain production are made. Once the grain markets have been deregulated, government policies for the stabilization of market grain prices, for the regulation of macroeconomic prices, and for the regionalization of grain farming are bound to help the grain production system. They will bring into line state macroeconomic decisions and peasant microeconomic decisions.

**Choice of Macroeconomic Grain Production Models**

The state should prescribe a production model in keeping with China's circumstances that is based on the present state of the economic structure, the trend in supply and demand for grain, and the state of agricultural resources.

A look at the history of grain production in China shows three models at different stages, namely the pioneering model, the fertility maintenance model, and the innovation guidance model.

1. The pioneering model period ran from 1949 through 1957 during which the grain growing area and yields per mu increased in China to contribute 50 percent of total output.

2. The fertility maintenance model period began during the end of the 1950s. During this stage, China's cultivated land area and grain growing area gradually declined. The only way to increase grain output was to increase per unit of area yields. Consequently, maintenance and improvement of soil fertility became a more important part of the daily agenda. During the 1960s and 1970s, large scale building of water conservancy projects, leveling of fields, and increasing the soil's organic content were employed to maintain soil fertility and improve the soil's ability to produce grain. Thus, during the 1960 and the 1970s fertility maintenance model was the main model used to increase grain output.

3. The innovation guidance model period. With the advent of the 1980s, the "innovation guidance" model was consciously or unconsciously selected as a means of grain production. When land became scarcer and rent increased, technological progress appeared as an innovative way to save the land's biochemistry; When manpower became scarce and wages rose, technological

progress appeared as an innovative way to save mechanical equipment used for work.

Land is extremely scarce in China, and the amount is decreasing by more than 4 million mu each year. Following institution of the output-related contract responsibility system, the role of intensive farming as a means of increasing yields approached its extreme limit. Without innovations in agricultural production technology to increase material inputs, further increase in grain production would be impossible.

After entering the 1990's, the sole choice for further increases in grain output was to increase material and technology inputs. Biochemical innovations were need to extend key elements in short supply was the only way to increase grain output. This was a macroguidance principle that the government had to bear firmly in mind at all times in the development of grain production. The underlying implications of his principle is the need to increase relative returns from the growing of grain to increase peasant income, thereby enabling the peasants to afford new commodity inputs.

**Grain Production Microdecisions**

The climate in which peasants made grain production decisions changed fundamentally following the change to market dealings in grain. Market price and opportunity costs became the main basis on which peasants made decisions. In a market economy, the peasants make the following three kinds of decisions:

1. Job and product decisions. Peasant households must choose from among a series of industries the one in which they want to work. However, because of financial, skill, management, and social relationship limitations, most peasants cannot work in anything but agriculture. They must make a choice from within agriculture. They base their decision about what crops they will grow on the relative profit to be made. Clearly, relative prices are the main basis for peasants microdecisions. The government may use financial subsidies to raise (or lower) the relative price paid for grain (or cash crops), or it may use import and export controls to change the relative price of any given crop. Alternatively, it may use exchange rate policy to change price levels, thereby influencing peasant decisions.

2. Resources decisions. Once the peasants have decided what crops to grow, they must next decide how best to allocate scarce resources. Here, the manpower and capital that peasant households of different size with different amounts of money may use to produce a certain amount of grain differs. However, in deciding the proper allocation of manpower and capital, different kinds of peasant households mostly consider factors such as the price of manpower and capital.

3. Input-output decisions. Following deregulation of grain markets, when grain will have to be sold through markets, peasants will have to use the price of inputs and



the price of outputs, and the amount of inputs and the amount of output to figure the amount of their gain in order to maximize profits.

#### **Grain Consumption System Decisions**

The grain consumption system is the final link in the grain system. Under a grain consumption market allocation mechanism, consumers opportunities to make free choices are greater. This raises the problem of consumer microdecisions. However, since the market is left to operate as it will, and since attainment of the goal of equitable distribution throughout society is impossible, government must intervene in consumption, and this gives rise, in turn, to macroeconomic decision problems.

#### **Macrodecisions About Grain Consumption**

Macrodecisions about grain consumption rely on an analysis of grain consumption trends. The history of grain consumption in China and other countries shows the following several trends in grain consumption.

1. The amount of direct consumption per capita tends to decline while the amount of indirect grain consumption tends to rise, and total grain consumption tends to rise. The direct causes of total grain consumption increase are total population increase and a rise in per capita income.
2. As per capita income rises, the demand for grain changes from quantity to quality. Thus, per capita income increase may cause uneven increase in grain demand. This unevenness is manifested largely in a premium quality grain demand income elasticity that is greater than for low quality grain, and an income elasticity for premium quality grain demand that is greater in rural villages than in cities. This means that when city and rural per capita income increases at the same rate, rural demand for premium quality grain is greater than in cities.
3. More and more grain is processed into food. The percentage of consumption of whole grain decreases steadily in both city and countryside families while the percentage of processed grain consumed rises steadily. This trend may be seen from the increase in output value of China's grain processing industries.

Given the above trends in grain consumption, what macrodecisions should the government make? First, in view of the steady increase in grain consumption as per capita income increases, since it is a general rule that consumption is greatest when income is moderate, and since China has now entered the ranks of nations having a moderate income, grain consumption in China is now at the peak period. Therefore, the state should increase investment in grain production, increase the price of grain relatively, and do all possible to increase peasant income to enable peasants to buy commodity-type goods for investment in order to increase grain production tremendously so that the increase in grain supply can satisfy the increase in demand. Second is increase in high income elasticity food production. Since rural demand

for premium grain increases as per capita income increases, production of these high income elasticity foods should be increased. Otherwise a tremendous gap between supply and demand will be created. This is already a very serious problem. The supply of premium quality rice cannot meet demand, but early indica rice is in great oversupply. Production of high income elasticity premium rice or animal foods requires greater resources inputs. For example, more irrigation water and more fertilizer are needed to grow paddy than to grow sorghum. Therefore, government should set a fairly substantial quality price differential to encourage the peasants to grow premium quality grain. Third, since grain demand income elasticity is greater in rural villages than in cities, and greater in needy areas than in developed areas, universal education, improved transportation and communications, and the expansion of grain production in rural and needy areas would lower the grain demand income elasticity of rural village and needy area populations. This would be more effective than simply considering income increase measures. Fourth, subsidies for specific purposes should be given low income people.

#### **Microdecisions About Grain Consumption**

The deregulation of grain markets has increased consumers' opportunities to make free choices. However, these choices are affected not only by the consumers' income level and prices, but by individual preferences as well.

1. Consumer decisions when grain prices rise.

Following grain market deregulation, the overall price level of grain may rise. Consumers will then readjust the mix of their commodity purchases on the basis of their income and individual preferences.

2. Consumer decisions after income increase. When consumer income increases, at a fairly low income level, the amount of grain purchased increases very rapidly. At a fairly high income level, however, the increase becomes slower and slower. This reflects an increasingly smaller percent of income spent on grain as family income increases. This is consistent with the laws of Engels and Bennett.

#### **Heilongjiang Grain Stocks**

94CE0344I Harbin HEILONGJIANG RIBAO  
in Chinese 1 Feb 94 p 1

[Summary] At present Heilongjiang Province has 7 billion kilograms of grain in storage.

#### **Jiangxi Improves Livestock Industry**

94CE0344J Nanchang JIANGXI RIBAO in Chinese  
14 Feb 94 p 1

[Summary] At the end of 1993, Jiangxi Province had removed 17 million hogs from stock, a 12 percent increase over 1992. Jiangxi has 161,000 households

specializing in raising livestock, accounting for 2.4 percent of rural households. In 1993 the output value of the livestock industry was 10.2 billion yuan, accounting for 30 percent of the gross value of agricultural output. In 1993 gross output of meat in Jiangxi was 1,610,000 tons, egg output 253,000 tons, milk output 29,000 tons, and per capita consumption was raised to 40.6 kilograms, 6.4 kilograms, and 0.73 kilograms respectively.

#### **Jilin Corn Export Plan for 1994**

94CE0344U Changchun JILIN RIBAO in Chinese  
31 Jan 94 p 1

[Summary] In 1994 the corn export plan for Jilin Province is 4,845,000 tons, of which national exports are 3,700,000 tons, barter trade 495,000 tons, and special reserves 650,000 tons.

#### **Military Grain Supply System To Change**

94CE0344O Beijing JINGJI RIBAO in Chinese  
5 Mar 94 p 1

[Summary] Beginning in April 1994, China will reform the military grain supply system, and change the current system of purchasing grain for the military at the state-set price. After purchasing the grain at the negotiated price, grain will be supplied to the military at a stipulated price. Central and provincial financial departments will share the price difference for military grain supplies. Finances for military grain will be managed by the provincial-level financial department. Grain departments will be responsible for purchasing grain for the military, and ensuring its supply.

#### **Liaoning 1993 Farmer Income**

94CE0344K Shenyang LIAONING RIBAO in Chinese  
1 Mar 94 p 1

[Summary] In 1993 per capita net income of farmers in Liaoning Province was 1161 yuan, a 4.1 percent increase over 1992 after deducting for inflation.

#### **Anhui Seed Area**

94CE0344P Hefei ANHUI RIBAO in Chinese  
14 Feb 94 p 6

[Summary] At present the seed area for improved crop varieties in Anhui Province is 1 million mu, and seed output is 180 million kilograms. Anhui is now basically self-sufficient in hybrid seeds.

#### **Zhejiang Increases Grain Procurement Prices**

94CE0344R Beijing ZHONGGUO XINXI BAO  
in Chinese 2 Feb 94 p 1

[Summary] In 1994 in addition to the contract procurement grain price, the standard for the added price will increase from 3.74 yuan per 50 kilograms in 1993 to

about 7 yuan. The guaranteed price for early rice contract procurement will increase a few yuan over the 24.60 yuan per 50 kilograms in 1993.

#### **Shandong, Liaoning Wheat Area**

##### **Shandong Wheat Area**

94CE0344L Jinan DAZHONG RIBAO in Chinese  
4 Feb 94 p 1

[Summary] At present the wheat area in Shandong Province is 70.5 million mu, a decline of over 1.3 million mu from 1993.

##### **Liaoning Wheat Area**

94CE0344Q Shenyang LIAONING RIBAO in Chinese  
12 Mar 94 p 1

[Summary] In 1994 the wheat area in Liaoning Province will increase from 3.26 million mu in 1993 to 4.5 million mu.

#### **Improving Heilongjiang Farm Exports**

94CE0341B Harbin HEILONGJIANG RIBAO  
in Chinese 26 Jan 94 p 6

[Article by: Coordinating Group, Examination of Problems With Heilongjiang's Export-Oriented Agricultural Industry: "Developing Heilongjiang's Export-Oriented Agriculture: Wonderful Prospects With a Difficult Start"]

[Text] In the past two years, 28 varieties of agricultural by-products from Heilongjiang have earned \$1 million each in exports. The good tendency of agriculture to develop towards an export orientation has improved the objective and subjective situation for starting an export oriented agriculture in Heilongjiang. However, we must understand clearly that there is still a considerable gap compared with more advanced provinces or regions in export oriented agriculture, regardless of whether one means breadth or depth.

Major problems demanding conscious resolution are:

1. The current system is unsuitable. It lacks strong organization and leadership, and the responsibilities of departments in charge are unclear. Coordination is weak, so there is no joining forces. In many places, export oriented agriculture is in a state of self-development. Looking at the foreign trade system, state controls are too tight for Heilongjiang's exports of agricultural by-products; some backbone export products remain strictly controlled by an export plan, which dampens enthusiasm for earning foreign currency from exports. For export of some agricultural by-products, there exist such problems as complicated procedures, many official procedures, lack of price transparency, somewhat unreasonable profit sharing, etc. This has

forced some agricultural by-products into export channels in other provinces. For example: hua [3323] mushrooms produced in Yanshou County have to be exported through Hainan's foreign trade department. The Shuangcheng Furfural Plant exports furfural through the foreign trade department at 5,700 yuan per ton, but the plant can only get 3,600 yuan; the profit distribution is very unreasonable.

2. Processing and circulation is still the weak link. Although the integration of trade, industry, and agriculture, and the merging of production, processing, and marketing have brought about rapid development from a quantity standpoint, there has not really been much done when it comes to developing an export oriented agriculture, and for leading enterprises like the Shuangcheng Nestle Corporation, Ltd, the results have been even fewer. Many of our leading enterprises are low quality and low level, their products having no market competitiveness, so that the majority of the agricultural by-products we have for export are raw materials. Statistics from the Farm Administrative General Bureau of Heilongjiang, primary products occupy over 90 percent of the annual exports of agricultural by-products, and more than 80 percent for the entire province. A lack of leading enterprises has made some bases very unstable. Some cattle bases are in decline, to the depression of dairy product plants and delays in payment for milk expenditures. In Bing County and Wuchang, there is large-scale raising of beef cattle, but so far there has not been a thorough processing enterprise.

3. The infrastructure is poor. The current shortage of railway and road transport is a serious obstacle to the development of foreign trade. In some border ports which cannot be reached by rail, poor roads makes import and export of goods erratic, seriously countering these ports' advantages. Telecommunications facilities are backward in many areas, which affects shipping information, and restricts commodity circulation and economic development.

4. A shortage of intelligence. After some remote areas became open ports, the quality of personnel in these areas just did not measure up. There is a lack of foreign trade administrators and foreign language talent.

5. Policies have not been implemented completely. There are many official procedures, many complicated steps, and farmers have to obtain licenses to go to the market. Heilongjiang's Farm Administrative General Bureau complain that farms cannot share favorite policies of their localities. People also complain that current economic laws and regulations, especially those involving foreign affairs, are imperfect. In addition, there is a lack of arbitration, making foreign trade disputes difficult to resolve promptly.

Looking at the experiences of Heilongjiang's advanced models or that of other provinces, in order to develop export oriented agriculture, Heilongjiang must insist on being led by big international and domestic markets, and

make further adjustments in its agricultural mix. Second, it must be vigorous in its operation of export oriented agricultural by-product processing enterprises. Primary agricultural products do not suit the international market well, nor the requirements of the growing domestic market; in intense market competition, economic efficiency is just as hard to attain. In those places in Shandong and Dalian which have been successful at export oriented agriculture, all breakthroughs were first made by leading enterprises. The great and lasting development of Shuangcheng cattle production in Heilongjiang relies chiefly on such export oriented leading enterprises as the Nestle Corporation, Ltd. These processing enterprises have not only opened up export channels for foreign trade, they have also provided the impetus for local agricultural by-products production. Third, we must vigorously develop bases for commodity production. Establishing well-known, excellent, and exceptional bases for the production of agricultural by-products is a precondition of guaranteeing commodity quality, variety, and wholesale supply. So, we must change our scattered, single-family operations into a concentrated, linked, production base having "one trade in one village", "one product in one village", carrying out systematic production, processing, and marketing, integrating trade, industry, and agriculture. These bases should have professional organizations offering full services, including information, production, processing, storage, shipping, and sales. Fourth, we must vigorously absorb capital and technology from other provinces and countries. Bringing in capital and technology from other provinces and countries is a shortcut to developing export oriented agriculture. Not only will this solve the problem of a shortage of capital in the start-up phase, it may also arrange and implement the product market while bringing in capital.

Developing export oriented agriculture is a massive systematic project. We should organize professional teams to acquire information from the domestic and international markets. We should both know the current market demand situation and master developing and changing trends in the future. We must reduce export restrictions on agricultural by-products, release a part of the inspection and approval rights to localities, and especially should relax policies on grain exports. The provincial government should release certain exporting rights for agricultural by-products to localities, enterprises, and enterprise groups.

#### **Heilongjiang Liquor Industry Faces Problems**

94CE0337A Harbin HEILONGJIANG RIBAO  
in Chinese 3 Feb 94 p 1

[Article by Meng Zhaomin (1322 2507 3046) and Xing Shiguo (6717 0013 0948): "Numerous Alcoholic Beverage Production and Sales Problems"]

[Text] Heilongjiang is a major alcoholic beverage producing and selling province. There presently are 88 national distilleries and 90 breweries in the province



and annual production of spirits and beer is nearly 1 million tons. Taxes and profits realized from spirits and beer in addition to wine and state commercial alcoholic beverage sales in recent years have exceeded 700 million yuan, making up an important part of provincial revenue.

But these reporters understand from the people concerned that in recent years, Heilongjiang's alcoholic beverage production and sales both have been in a rather chaotic state, not only causing serious erosion of revenue, but more directly endangering consumers' physical health.

Alcoholic beverage production is out of overall control. Based on calculations of current production capability, throughout the province state enterprise production of spirits is 100,000 tons greater than sales and production of beer in 200,000 tons greater than sales. In some state enterprises, production capacity is idle and with results still not fully brought into play, small individual distilleries have grown incrementally. According to incomplete statistics, in 1991 there were 879 small distilleries throughout the province, and this year it has already reached 2,500. According to a survey, the vast majority of small distilleries do not meet standard production conditions. They do not have specialized technicians and they do not have testing equipment. Some even sell diluted industrial alcohol. What causes extremely serious consequences is that fatal poisonings continue to occur. In March 1993, a farmer, Bu Sulong [0592 4790 7893], in Songjiang village, Songjiang township on the outskirts of Jiamusi without any license operated a small private distillery, used adulterated industrial alcohol diluted with unboiled water to make spirits in bulk, and peddled 1,500 kilograms to thirteen sales points in that locality, poisoning five people to death, paralyzing three people, and blinding three people in both eyes. An inordinate amount of poisonings also occurred in Bin county last year causing injury and death. Because of their limited technology, small distilleries' grain consumption is generally twice that of state distilleries. According to statistics, in this province alone, 150 million kilograms of grain is wasted.

According to surveys, the existence of small distilleries depends mainly on tax loopholes. Experts reveal that if they paid 10 percent taxes, all small distilleries would lose money. The current state distillery tax is levied at 35 percent. Based on this calculation, every year throughout the province taxes evaded by small distilleries reach 50 million yuan or more.

The alcoholic beverage sales market is out of control. Since the circulation system has been reformed and the state commercial monopoly has been broken, channels

for circulating alcoholic beverages have increased and a brisk market has flourished. But at the same time it has brought some problems. The first is that falsely labeled alcoholic beverages have run rampant. In 1992 alone, throughout the province special alcoholic beverage sales control organizations confiscated more than 260,000 bottles of fake Maotai and fake Wuliang.

The second is that low-grade spirits diluted with ethyl alcohol are flooding the market. In 1992 throughout the province, special alcoholic beverage sales control organizations confiscated more than 200,000 kilograms of low-grade alcoholic beverages made by individuals using ethyl alcohol diluted with unboiled water, and in 1993 they confiscated more than 300,000 kilograms.

Experts believe that the key to turning around the chaotic situation in the production and sale of alcoholic beverages is in learning from other provinces and augmenting special alcoholic beverage sales controls and speeding up special sales legislation for alcoholic beverages.

#### Guangxi, Shandong 1994 Crop Area

##### Guangxi Crop Area

94CE0344S Chongqing XINAN JINGJI RIBAO  
in Chinese 6 Mar 94 p 1

[Summary] The total crop area in Guangxi will be 740,800 hectares, a 1.6 percent decrease from 1993. The sugarcane area will be 24,900 hectares, a 93 percent increase; the vegetable area 254,200 hectares, a 23 percent increase; the cereal area 19,800 hectares, a 22 percent decrease; and the green manure area 249,700 hectares, a 23 percent decrease. The oil crop area will increase 10 percent over 1993, and the grain area will increase 1.7 percent.

##### Shandong Crop Area

94CE0344T Jinan SHANDONG JINGJI RIBAO  
in Chinese 9 Feb 94 p 3

[Summary] According to a survey of 3,150 rural households in Shandong Province, the grain area will reach 105,674,000 mu, an increase of 716,000 mu, or 0.68 percent over 1993. The oil crop area will reach 12,960,000 mu, a 10.54 percent increase; and the peanut area 12,640,000 mu, an increase of 1,110,000 mu, or 9.62 percent. The bean area will be 10,310,000 mu, a 10.32 percent increase. The vegetable area will be 680,000 mu, and melon area 80,000 mu. The cotton area will be 11,120,000 mu, a decline of 1,690,000 mu. The flue-cured tobacco area will be 870,000 mu, a 20.57 percent decline; and the sugar area 7,600 mu, a 60.29 percent decline.

**Newspaper Reviews Literary Efforts in 1993**  
94CM0188A Beijing ZHONGGUO QINGNIAN BAO  
in Chinese 20 Jan 94 p 8

[Article by reporter Liu Shuang (0491 3642): "Writings Are Meant To Be Eternal, But Merchants Are Playing Critic Today: 1993—An Unpoetic Year for Writers?"]

[Text] 1993 was an exciting year for Chinese scholars. Looking back at the literary world of 1993, amid the mishmash of discussions, one voice kept saying, the year of 1993 was flooded by waves of commercialism; the literary world was "unpoetic." Some critics said that behind the writers' frantic rush to get into the market were merchants deliberately playing up and at the same time obstructing the literary world. Thus the legacy of 1993 is a less-than-well-developed literary market in 1994. Others believe that "unpoetic" is a necessary loss. No matter what everybody is saying, no scholar can forget the emotions of 1993, even less can he or she stop mulling and pondering over and recalling and reviewing that year.

**I. Literature and Publication: A Romantic Dream Revisited**

Our research trailed behind; nobody predicted its arrival: Literature seems to be on the rise again. In taking big strides toward the market, scholars and writers have broken free from their self-love, self-pity, and their penchant to blame god and man—blame everyone but themselves, and they are actively and wholeheartedly joining hands with the publishers, who in turn have come to realize that perhaps literature is the cardiostimulant that can save them.

The popularity of *Sao Tu* is a very typical example. The author, Lao Cun [5071 2625], whose real name is Cai Tongkai [5591 6639 2818], is a middle-aged man living in Beijing without proper household registration. He was very poor. Many publishing houses' editors may have forgotten, but several years ago, a young writer from a village in Shaanxi Province was clutching his novel and knocking on doors, seeking help, but everybody ignored him, because there were many other young and middle-aged writers who were afflicted with the same "writer's syndrome."

Cai Tongkai's lucky year was 1993. He was discovered—just like a movie star—by a book distributor. *Sao Tu* became the first Chinese novel to be published by the CHINESE LITERATURE PUBLISHING HOUSE. Prior to that, the publisher was a part of the FOREIGN LANGUAGE PUBLISHING HOUSE. They took a chance with the book but owed its success to the management of a very capable distributor. Overnight, *Sao Tu* filled the main streets and the back alleys. Those in the business estimate that 60-70,000 copies have been printed. Sometimes the book is put alongside serious biographies in the book stalls, showing a new publication order for 1993. Lao Cun's life as a laborer is over. He said he wanted to be a full-time writer from now on.

A fine example has boundless power. One set of books or even a single book can save a publishing house. At the end of 1993, book stalls were filled with literary smoke from big guns like *Floating City* [Fu Cheng] (by Liang Xiaosheng [2733 2556 5116]); *Blue City* [Lan Cheng] (SPRING BREEZE LITERARY PUBLISHING HOUSE); *Rainless City* [Wuyu Zhicheng] (by Tie Ning [6993 0413]); *Bitter World* [Ku Jie] (by Hung Feng [3163 1496]); *Naked Snow* [Luo Xue] (by Cong Weixi [0654 4850 3556]). These books are everywhere; circulars are being handed out. Many works are by once-famous writers whom we have not heard from in a while.

Here we cannot overlook the effects of the "invasion of the east by the Shaanxi army" on literature and publication in 1993. The "invasion" began early in the year and reached its peak in midsummer.

People are beginning to refine their market choices. The development of the book market follows its own laws. Upon reaching saturation, all reading materials tend to show some inertia, and at that time anything that is new and vigorous will show vitality. That was how things took a turn for the better for literature in 1993. People with some education were fed up with seedy, pirated books and were losing their "appetite," because most reading materials had lost much of their spiritual content and there was nothing there to quench the readers' thirst. An ordinary worker-type young man bought a half-decent novel and said to his friends, "This stuff is pretty meaningless."

In refining their tastes, people have also discovered that the market can be made and led. Works that are currently popular have made use of "packaging" to help them become a market success. If the successful "packaging" of the "invasion of the east by the Shaanxi army" had been unintentional, the massive advertisement and publicity of those that came later were deliberate.

On 28 September of last year, writer Zhou Hong [0719 3163] signed a contract and "sold" himself to CHINESE YOUTH PUBLISHING HOUSE. That was the first time in decades a publisher "bought up" a writer and "packaged" him. It made quite a stir in media circles. It has been four months since he "sold" himself on a 3-year contract. What is the result of the market test? Both Zhou Hong and his publisher say that "it is very sweet," because the first set of books he sold after "selling himself," *Sincere Advice on Life* [Rensheng Zhonggao] was bought up by the Xinhua Bookstore for exclusive sales. Zhou Hong's top writer, Zhou Chengyi [0719 2429 5030], recently told this reporter that 110,000 copies of one book and 55,000 copies of two other books in the set had been printed. That made a total of 220,000 copies. In other words, CHINESE YOUTH PUBLISHING HOUSE never had to take any risk in this venture which was a first of its kind in China's publishing circles. It was a filling and comfortable meal.

Didn't we say we wanted to get rid of the old publication system? Didn't we say we wanted to encourage the

publishers to change from the production mode to the production-management mode? We cannot draw any conclusion yet. From the efficiency point of view, of course everything is perfect. Despite the ban on the buying and selling of book titles, and in the face of a general recession, the "purchase" of Zhou Hong has made money for the publisher and has made the writer rich too. Everybody is happy. But from the point of even higher expectations, what we have today is still the same old system, unless CHINESE YOUTH PUBLISHING HOUSE can come up with another new move or new gimmick this year.

At the signing ceremony, a reporter asked how much Zhou Hong was getting. He never gave a straight answer, which led some people to wonder whether the publisher was paying him by the number of prints per book. That in essence would mean that Zhou was only "selling books" and that "selling himself" was but a publicity stunt to shock people. No matter what people say, the CHINESE YOUTH PUBLISHING HOUSE's buying and packaging of writers does have a positive effect on people out to explore China's best-seller mechanisms.

Can literature be "sold" and writers be "bought"? Debates raged throughout 1993. What is gratifying is that while everybody "sat down to talk" it has not kept them from "taking action." From the literature point of view, Zhou Hong is not a pure literary writer and therefore cannot represent the pure literary writers in accepting the market's tests. Zhou Hong's work is but "cultural fast food," with young men taking part in division of labor. There is no need for strong artistic character, but their works meet a best-seller's need for general appeal. In exploring the beginning stage, doing the easy things first before tackling the tough problems is a wise move.

What place does pure literature have in the market? The lesson was not dealt with in 1993. In Guangzhou, young critic Wang Gan [3769 1631] brought up the concept of "literature is not for sale." He said literary works are very susceptible to corruption by "commercialization" and therefore some people must escape from this humiliating "marriage" system. In the south where this concept was invented, price competition for manuscripts is raging like wildfire. Several large, so-called prima donna pure literary journals, such as SHIYUE, DANGDAI, SHOUHUO, HUACHENG, and ZHONGSHAN, are still tenaciously defending literature's spiritual fortress despite "repeated defeats," but not all of them are doing well. Some are selling as many as 100,000 copies while others are selling only a few thousand copies. At one time, there was news that SHOUHUO was in financial trouble and would not stay in business for long. Shanghai's writers were very much saddened. But SHIYUE's deputy editor-in-chief, Tian Zhenying [3944 3791 4481], said the magazine's subscription rate has actually gone up 3 percent. How do the readers choose what kind of pure literature they want? That indeed is a question for the experts to explore.

## II. "Suicide" or "Murder": A Writer's Choice

Some critics have compared Zhou Hong's signing the contract to "sell" himself to a writer committing "suicide," killing his own artistry and ideal. They also compare writers who are being told what to do by middlemen to murder victims. There were many examples of this kind in 1993. "Suicide" and "murder" differ only in the way sales are being made. When it comes to choosing a marketing format, writers are showing more courage than ever before.

The person most aggressive in trying new methods is Chen Jiangong [7115 1696 0501]. On 6 December last year, people noticed an eye-catching, front-page advertisement in BEIJING WANBAO: Buyer of TV or movie adaptation rights to Chen Jiangong's novelette *Qian Ke* sought. The company that planned this whole thing for Chen Jiangong and acted as his agent was Beijing's (?Aideer) Information and Consultation Company. Reportedly, this company handles public relations and provides investment and consultation services; it once sponsored the capital writers and reporters' "pen-exchanging" conference. Because the key managers of the company are former writers, it has kept close ties with those in literary circles. They want to take advantage of their speciality to launch a new business to act as middleman and agent for writers, scholars, and artists. Soliciting buyers for the adaptation right to Chen Jiangong's *Qian Ke* was a way to test the waters.

This reporter recently visited the company and learned that a month has gone by and three buyers have entered the negotiation stage. Aideer [name as transliterated] Company will follow international practices and will get a percentage as commission in the deal. Following in Jiangong's footsteps is folk singer Hu Songhua [7579 2646 5478] who also has plans to work with Aideer. The company may become the agent for his made-for-TV art film, *Changge Wanlihang*. When the time comes, much will be done to package that product too.

An Aideer [name as transliterated] Company manager told this reporter that writer's agents would have surfaced in China sooner or later. With the service of intermediaries or personal agents, the writers can rise above the interference of business matters, escape from their own impulses, and immerse themselves in their creative work.

In fact, at the end of 1992, CENTRAL NEWS AGENCY had reported "the opening of the first press agency in the mainland." Xian's Chinese Book Agency Service Department hung up its shingle at the end of 1992. Its main business should have started in 1993, but unfortunately, the Shaanxi army had moved east: all the popular works had gone to Beijing. Reportedly the service department is a paid service organization set up by the Shaanxi Book Critic's Association. Its business scope includes recommending topics and print-worthy manuscripts to domestic and overseas publishers; soliciting contributions on behalf of publishing units; acting as



agent for a specific work or on a retainer basis for writers at home and abroad; handling publication and distribution matters as requested by the writers. They make money mainly by charging the writers a 10-yuan handling fee plus 10-20 percent commission on the writer's remuneration for each book published.

Shanghai has a writer's publishing agency too. Its business also includes finding enterprises to sponsor writers who have no money to get their books published. Everybody has also noticed the potential market for intermediaries who handle manuscripts. Their existence is premised upon the maturity of the cultural market.

It has entered the minds of some literary writers of actual events to hire personal agents too. A certain top writer of a major newspaper is often besieged by manuscript seekers. He is totally confused about the names of newspapers and magazines, the different topics, and the deadlines for various manuscripts; he cannot remember who is who. In particular, a southern magazine once sent two woman editors on separate occasions. He cannot remember the name of the better-looking one.

Meanwhile, another top writer has been working happily with a retired editor who is very conscientious and responsible and sends the writer's manuscripts in all directions so that every manuscript seeker gets what he wants. In effect the retired editor has become an agent.

In addition to the need for agents, writers and scholars have discovered the importance of getting organized in order to keep up with the rhythm and the order of large industrial production. There are two approaches to getting organized: First, people who share the same goal use their names to create acronyms such as "Xue Mei Li" and "Zhou Hong"; in Wuhan, there is even a "Gong Bo Hou." At one time, Wuhan was considered the second channel in the wholesale gathering and distribution of books and magazines and often found itself unwilling to lag behind the bustling Beijing publishing circles. "Gong Bo Hou's" full-length book set *The Devil* [Mogui] ("*Mogui Liansanjue*," "*Mogui Xiesantuan*," "*Mogui Nuerquo*," and "*Mogui Yehuchan*") hit the market in October of last year. This reporter has learned that "Gong Bo Hou" had claimed that all of their work would be published exclusively by CHANGJIANG LITERARY PUBLISHING HOUSE before October 1996. From the book titles, one can tell that they are targeting a different group of readers than those targeted by Zhou Hong and others.

Another form of organization is the writer's bureau and creative center. In addition to the well-known "Haima," the Changan Movie and Television Script Writing Center in the northwest is another major movie and TV script-writing center today. Its building-block format is well-known to the public. The "Three Sisters" writer's bureau, known for its mastery in all areas from music, chess, literature, to painting has also added elegance and style to the 1993 literary world. Wang Fei [3769 5481]

and his sisters are up-and-coming members of the capital's media circles. Reportedly, civilian-run bureaus comprising of famous writers have established themselves in Beijing and somewhere in Fujian. Their members include reporters and writers who can be commissioned to write books and manuscripts, biographies for enterprises and famous personages, and any other kind of writing. They remind us of the early kind of men-of-letter who wrote marriage contracts, land leases, and petitions and legal papers. But there has been no media report on how well these bureaus are faring.

We had a huge contingent of writers and scholars last year. While some writers laid low, others were wildly popular. Cao Guilin [2580 2710 2651] was indeed a household name in 1993, but the media have disclosed the dark side of the writer's morals, and the public was bewildered.

This article has no intention of getting entangled in what is true or false and has no intention of making moral judgments here. We are only interested in a trend in the 1993 literary world, and that is, how the successful ones were crowned kings while the defeated became bandits. People no longer care if there is a split between the writer's work and his character; they no longer care about the tempering and sublimation of the scholar's character. Is this corruption of the contingent of creative writers, or is this progress? As for the critics who lament that "we hear no ancient sage's cry in the wilderness," it is even more a case of the idealists putting unrealistic demands on the writers.

The writers' loss of esteem is far less poetic than their "suicide" or "murder." People no longer cherish the title, "writer"; even the scholars are ashamed of themselves.

### III. A Virus in Publishing Circles: Piracy and Anti-Piracy

Woman writer Tie Ning called her chief editor long-distance from Shejiazhuang telling him that just a month after her full-length novel, "Rainless City" hit the market, pirated copies were found in Shejiazhuang, Baoding, and other localities. Tie Ning angrily described the crude quality of the pirated copies which were full of mistakes. Her picture on the cover was ghastly.

SPRING BREEZE LITERARY PUBLISHING HOUSE editor, An Boshun [1344 3134 5293], told this reporter, "This is totally unexpected." "Rainless City" was the second book marketed under the series *Cloth Tiger* [Bu Laohu]. It appeared that the pirated copies had gained a substantial market share. Pirated copies of the first book in the *Cloth Tiger* series, *Bitter World* (by Hung Feng), have also been spotted. On hearing the news of piracy everywhere, An Boshun is like someone whose home has just been burglarized. He is struggling in a "bitter world."

"Publishers want their books to sell well. But hot-selling books are doomed to be victimized by piracy," said the

chief editor. "A good book is not easy to come by. Our bureau worked very hard to come up with the *Cloth Tiger* series. We first tried to reach a consensus with 10 writers, and from selecting the topics to packaging and advertising the products and so on, we have put in a lot of work. We have even registered the name and logo, *Cloth Tiger*, as our trademark. Our intention was to create a famous name in publishing circles and use it to combat the seedy publications market. This was something nobody had ever done before in publishing circles. But pirates of books do not pay taxes; they do not pay for the manuscripts. All they put in is some money for the paper and ink. What they are after is huge profit."

According to the editor, when *Bitter World* and *Rainless City* were still in the press, someone went to the printing shop to bribe a worker and went to the bureau to bribe the editor to try to get hold of a duplicate copy or sample. Someone even had the nerve to go straight to the editor's home and bargain with him: "Work with us and we will give you a cut of the profit. Other people pirate your books and you don't even get a penny; you won't even know who did it."

It is learned that to track down the pirates, the news publishing department, the department of industry and commerce, and the public security department often must work together, and investigating cases across provincial, city, and regional boundaries is very difficult. Individual book dealers are a mysterious bunch; pirates are even harder to track down. They often use some small printing shops to reprint books illegally; they make a hit and clear out of the area immediately. The printing of pirated books often help revive the small, hard-pressed printers, and once the workers are paid their bonuses, local protectionism becomes an obstacle blocking any investigative effort. Even if the violators are apprehended, they are often fined and released. To them, the fine is nothing compared to the exorbitant profits they can make, but to the publishers, the human and material resources spent far exceed any compensation. This is one of the reasons the publishers feel helpless against piracy.

Most book pirates are individual dealers; some are former editors who have left the publishing circles; a handful are members of publishing houses stealing from their own company. Of course if these people gang up, they can be a force to be reckoned with. The contingent of pirates is becoming increasingly specialized. They respond very quickly, assess the market accurately, and can anticipate the publishers' every move. It normally takes only a few days to pirate a book. They use deep discounts and high profit to squeeze the publishers out of the retail network. Those in the business estimate that for a relatively large law case of speculation and profiteering that generates 200,000 yuan in profit, one only needs to make 20,000 copies to earn back the money. Some book dealers say that they will not even bother with volumes of less than 100,000 copies. According to the editor of BEIJING PUBLISHING HOUSE, 11 different counterfeit versions of a best-seller they had

published have been discovered; each version had at least 20,000 copies. Some books have been discontinued by the publishers, but they are still available in the market. Some pirates use camera-technique to make copies, and they look almost real. However, most copies are of very poor quality. A reader sent an angry letter to BEIJING PUBLISHING HOUSE because the book he bought was full of misprints and mistakes. He even sought 100,000 yuan in proofreading fee and threatened to go to the Consumer Protection Agency. The publisher was at a loss for words; they sent him an authentic copy to avoid the consequences.

Recently this reporter obtained the latest news from the PARTY LITERATURE PUBLISHING HOUSE that lawyers have been retained to take legal action against those who pirated Mao Mao's [3029 3029] *My Father Deng Xiaoping*. This probably is the most straightforward legal case in publishing circles. The book's chief editor, Zhou Zhixing [0719 1807 5281], told this reporter that after *My Father, Deng Xiaoping* hit the market, pirated copies soon appeared in Chengdu, Wuhan, Changsha, Jinan and other cities. The *Serious Warning* put out by the PARTY LITERATURE PUBLISHING HOUSE on the front page of XINWEN CHUBAN BAO on 8 November of last year pointed out that book pirating has ruined the reputation of the publisher and has hurt its profit and that the publisher has reserved the right to prosecute those engaging in piracy and seek compensation for economic losses. Awards were offered for leads, and anyone who could provide specific information on the case would be awarded 10,000 yuan by the publisher. Zhou Zhixing said the quality of the pirated copies was very poor, and erroneous wording has produced adverse political fallout. Currently, the piracy activities in Wuhan are being investigated by local relevant departments; most of the 10,000 copies uncovered so far have been turned into pulp. Pirating in Shandong is being investigated by the pertinent department there.

Lawyers Zhang Yongyi [1728 3057 1355] and Cao Zhixin [2580 1807 2450] of Beijing's Dadi Law Firm have been retained by the PARTY LITERATURE PUBLISHING HOUSE. Despite the increasingly rampant acts of piracy, the lawyers believe that the relevant laws and regulations governing the printing industry as promulgated by the state are detailed and specific, and if the industry would follow the state's laws and regulations strictly, they can cut off the crime of piracy at the first link. For example, when the pirates commission the printing job and when they pick up the books, they always pay cash; all necessary documents can be forged, and when one tries to find the person who commissioned the work, it is like looking for a needle in a haystack. If the printing shop would closely check the identity of the person commissioning the work, it would facilitate later investigations and in turn block the pirate's way out.

When the editor of SPRING BREEZE LITERARY PUBLISHING HOUSE heard the above news, he smiled sadly and said, "If they dare pirate that book, what wouldn't they steal?"

As swords clash in the battle between piracy and anti-piracy, people can distinctly hear the jingling of pennies. The sound can be heard ringing loud and clear on many days throughout 1993.

The loss of the sense of poetry is the loss of morality and the loss of order.

The sense of poetry cannot be restored by artificial means or by sheer will. Society nevertheless is evolving toward civilization and wealth. The people's overall spiritual fatigue is but a transition; literature will eventually occupy a good place. We must remain calm and collected.

Senior editor Tian Zhenying has enthusiastic praise for a group of young people. She told the reporter that 20-some young writers, including Liu Zhenyun [0491 7201

7189], Mo Yan [5459 6056], Chen Jiangong, Mu Guozheng [3018 0948 2398], Hua Shumin [5478 3219 2404], and Xu Mouqing [6079 6180 3237] are working with a publisher of pure literature on a trial basis to create a kind of "new experimental novels." Regardless of success or failure, their spirit is commendable. Despite the predicament pure literary publications are facing, these people are not laying blame nor complaining nor standing by doing nothing; instead they are stepping out to lend support to the publications and are trying diligently and seriously to accomplish something as they explore pure literary and artistic creations. It is most gratifying to find young people who are without sectarian biases and who are open-minded.

Do the senior editor's words mean that after the shakeup in 1993, the literary world will become more mature?

The beginning of the year is a time when people try to catch their breath. To find out what 1994 will be like, one must wait till spring.



## NORTHWEST REGION

## History of Islamism, Turkicism in Xinjiang

94CM0183A Urumqi XIYU YANJIU [THE WESTERN REGIONS STUDIES] in Chinese No 1, Jan 94 pp 70-75

[Article by Chen Chao, affiliated with the History Institute of the Xinjiang Academy of Social Sciences: "The Early Spread of Pan-Islamism and Pan-Turkism in Xinjiang and Yang Zengxin's Responses"—edited by Qi Qingshun]

[Text] Early this century Pan-Islamism and Pan-Turkism were very active internationally, and Xinjiang was also affected directly or indirectly. At the time the infiltration of Pan-Islamism and Pan-Turkism into Xinjiang had already aroused vigilance on the part of Yang Zengxin, then governor and military commander of Xinjiang Province. He regarded the infiltration as a potential threat to stability in Xinjiang, and adopted preventive, restrictive, and crackdown measures, which played some role in maintaining social stability in Xinjiang.

## I

Pan-Islamism is also translated as Greater Islamism, and was founded by Jamal al-Din al-Afghani. During the middle of last century, Jamal al-Din al-Afghani began to have Pan-Islamic ideas. He advocated uniting believers of Islam, reinvigorating Islam, and resisting Western colonialism's influence on the politics, economics, and culture of the Islamic countries. At the time such ideas had some progressive role to play in opposing the colonialist aggression carried out by Western powers. However, such supranational, suprastate, and supraclass narrow religious views were later used by feudal autocratic and imperialist forces as their ideological tools for carrying out aggression in the relevant regions.

The most devoted promoter of Pan-Islamism was Abdul Hamid II of the Ottoman Empire (the predecessor of the Republic of Turkey and commonly called Ottoman Turkey). He came to power through a coup in 1876. As the head of government he proclaimed himself "sultan," and as a religious leader he proclaimed himself "caliph," practicing theocratic feudal rule. But the size of his realm was no longer comparable to that in the past. The purpose of his effort to promote Pan-Islamism was to try to bring believers of Islam all over the world under the rule of the sultan and caliph of the Ottoman Empire, so as to relive the historical experience of the Ottoman Empire of the past which had stretched across the three continents of Europe, Asia, and Africa.

Pan-Turkism has often been mistranslated as the doctrine of Greater Turkey. The ancestor of Turkey was a Turkic tribe which moved westward during the Middle Ages; the chief of that tribe was Osman. The Osmani Turks moved from Central Asia to Western Asia, and gradually became the Turkish nation through assimilating local peoples. Pan-Turkism advocated that Turkey

unite all turkic-speaking peoples, that is, to establish a great Turkic empire headed by Turkey, stretching from the Bosphorus to the Altay mountains, or even from the Mediterranean to the Pacific Ocean; obviously a large part of China's territory, including Xinjiang, would be included. Pan-Turkism was the same as Pan-Islamism, and there was no difference in essence between the two. The aim of Pan-Turkism was also to relive the experience of the Ottoman Empire of the past.

Ideas of Pan-Turkism originated among the Turkic-speaking Tatars in tsarist Russia. Ismail Gasprinski was an early representative figure of the effort to propagate Pan-Turkism. He founded JOURNAL OF TURKMENISTAN in the Crimea in 1878 and founded the journal TERCUMAN in 1883, calling on Turkic-speaking peoples to get united. Each edition of that journal had 5,000-6,000 copies, some of which were brought from Central Asia to the Xinjiang region.

By early this century propagating Pan-Islamism and Pan-Turkism had become an important component of the means used in imperialist aggression. There were then as many as over 200 publications propagating those ideas. In 1909 the Committee of Union and Progress of Turkey (called the Young Turks by the Europeans) overthrew Hamid II and organized a new government. Politically that government advocated constitutional monarchy, and ideologically it made energetic efforts to promote Pan-Turkism, allowing Pan-Turkic organizations to operate openly. After the October Revolution many Pan-Turkic activists infiltrated the Central Asian region of the Soviet Union. They distributed tens of thousands of propaganda pamphlets, smuggled firearms into the region, and tried to incite the Turkic-speaking peoples to create disturbances; they were also already having a impact on China's northwestern border region—Xinjiang.

## II

Because of geographical, ethnic, and religious factors, Xinjiang was all along coveted by Pan-Islamic and Pan-Turkic forces around the world.

Shakhmatov and Kireyev, scholars of the Soviet Union, would argue: Yakub Beg who invaded Xinjiang in 1865 pursued an "adventurous, naked policy of Greater Islamism," and established a "feudal khanate."<sup>1</sup> This view warrants debate. In 1865 Pan-Islamism was in its infant stage. It was in the 1890s that Pan-Islamism came to be given attention and exploited by Hamid II, sultan of Ottoman Turkey. However by that time Yakub Beg and his aggressor regime had already been buried by the Chinese people. It should be said that Yakub Beg exploited Islam in invading Xinjiang but did not start the effort to promote Pan-Islamism (i.e., Greater Islamism).

Based on the historical data now available, generally it can be argued: During the period from the late 19th

century to the early 20th century, ideas of Pan-Islamism and Pan-Turkism began to be propagated in Xinjiang. The main manifestation was that Gasprinski's Pan-Turkic journal *TERCUMAN* had reached Xinjiang. In 1908 Maolamusha Sailami [3029 2139 2607 3097 6357 2139 4717] of Baicheng, Xinjiang, changed the title of his book *A HISTORY OF ANNING* into *A HISTORY OF HAMID* (the Chinese translation was *YIMIDE SHI* [A HISTORY OF YIMIDE] or *HAIMIDE SHI* [A HISTORY OF HAIMIDE]). He wrote in the preface: Hamid II is the leader and great protector of all Muslims. As shown here, Pan-Islamism had already had some influence on people of the religious community in Xinjiang, but cannot be said to have already produced harmful effects on society. It was during the early years of the republic after the 1911 Revolution that harmful effects on social safety in Xinjiang began to be produced.

When Yang Zengxin ruled Xinjiang in the early years of the republic, ideas of Pan-Islamism and Pan-Turkism infiltrated Xinjiang in a substantial manner. The infiltration was manifested in the following several ways:

1. Running schools. Under the flag of having a new kind of school, efforts were made to instill ideas of Pan-Islamism and Pan-Turkism into the minds of adolescents. Ahmad Kamal, a Turkish subject, run a school in southern Xinjiang, and Masud Sabri, who had returned home after studying in Turkey, run a school in Ili. These were two obvious examples.

In March 1914 Ahmad Kamal, 25 years old at the time, came to Xinjiang on a tourist visa. When teaching at the Ottoman Unity Force School in Istanbul, Turkey, two years earlier, he had got acquainted with members of the Committee of Union and Progress, Fuat Koprulu, Ziya Gokalp, Mehmed Talat, and others, who were all active promoters of Pan-Turkism. For instance, Ziya Gokalp later published the book *Turkculugun Esaslam* (*The Principles of Turkism*). Mehmed Talat was a leader of the Committee of Union and Progress. He led a secret organization, the task of which was to propagate Pan-Islamism and Pan-Turkism outside Turkey.

Toward the end of 1913, during their pilgrimage journey to Mecca some hajjis from Xinjiang came to Istanbul, Turkey, travelling in a roundabout fashion, and were received by Mehmed Talat. At that time a member of the wealthy Husayn Bay family of Artush, Xinjiang, proposed to hire Turkish teachers to teach in Xinjiang, so as to improve the cultural and scientific knowledge of Uighur adolescents. Mehmed Talat immediately realized that this was a wonderful opportunity to have ideas of Pan-Islamism and Pan-Turkism infiltrate Xinjiang of China; so he agreed to the proposal right away and sent Ahmad Kamal to Xinjiang. When Ahmad Kamal arrived in Artush around mid-February after leaving Istanbul, he was received by Husayn Bay and Baha al-Din. According to *Buguozhai Wendu* [*The Correspondence of Yang Zengxin*] by Yang Zengxin, Bawuding [1572 0063 0002] and Yiming'ai [5902 2494 5337 6849] of the local gentry hired Ahmad as a teacher at Small Artush Village.

The school was divided into two or three parts which were situated in Beijie and Genggongci. The scripture was the main subject being taught, while such subjects as medicine and arithmetics were also taught. In addition, according to Burhan: Baodingbayi [0545 0002 1572 0181], a wealthy businessman in Kashi hired Ahmad Kamal from Turkey as a teacher, and built a school in Artush, which was to exclusively engage in propagating Pan-Islamism and Pan-Turkism.<sup>2</sup>

On 19 April 1914 Ahmad Kamal opened a normal school in Artush with three classes, mainly admitting local elementary school leavers at the age of 15 or older, including some children from wealthy families. There was also a special class which admitted exclusively those students who had learned some Arabic and Persian from imams. In addition to religion courses there were also history, geography, art, and gymnastics courses. Teaching materials consisted entirely of translations of Turkish textbooks, and printing machines transported here from Istanbul were used to print them. The journal *ULU DIN* was also printed.

Ahmad Kamal forced the school to accept the sultan of Ottoman Turkey as the leader and to regard the caliph of Ottoman Turkey as the spiritual father, and only allowed students to sing Turkish songs.<sup>3</sup> He used the school as a position in the battle of propagating ideas of Pan-Islamism and Pan-Turkism, and spread ideological poisons harmful to China and the Chinese nation with regard to state and national identity, thereby poisoning the adolescents.

Masud Sabri was from Ili, Xinjiang, and was born to a wealthy family in 1887. In 1904 he went to Ottoman Turkey to study medicine. He came to espouse ideas of Pan-Islamism and Pan-Turkism in Istanbul. After returning home in 1915, he, together with a few Turkish subjects, operated hospitals and schools in Ili. When speaking to students, they openly advocated the idea that "our ancestors were Turks" and that "our motherland is Turkey,"<sup>4</sup> and other ideas, completely deviating from the fundamental interests of the country and the nation and thus becoming spokesmen of foreign aggressors.

According to Masud himself: he operated the Turan, Deernaik, and Dongmaiailai schools in Ili.<sup>5</sup> The usual translation of Turan is now "Tulan." The Turkish Pan-Turkic theorist Ziya Gokalp argued that Turan was the "great motherland" of all Turks. The intention of using this term as the name of a school in Xinjiang was very obvious. At that time Yang Zengxin sent Prefecture Administrator Xu Guozhen to inspect the counties in Ili. It was found out that schools there were purely religious in nature, having no teachers of the Chinese language. It was thus suggested that the situation "be rectified immediately." According to later statistics: in the 1920s teaching was carried out completely in Turkish in the eight schools in Ili, with 28 classes, 68 teachers, and over 2,000 students. Only three of those schools offered

Chinese language courses. Those schools became important places used by Masud and others for propagating Pan-Turkism.

The instances of foreigners' openly operating schools in Xinjiang, especially in southern Xinjiang, were not isolated. For instance, in 1915 Luxierwaner [7120 1585 1422 1354 1422], a Tatar (customarily called *tataer* in Xinjiang), secretly opened a school in Kuche; in 1916 Yakefu [3660 0668 3940] (also translated as Akuboboke [7093 1655 1580 0130 0344]) opened a vocational school in Shache. In 1920 Imam Musuer [4476 4790 1422] of Turpan and others hired a Tatar Hasanmihaiyideer [0761 2718 4717 3189 0044 1779 1422] and others to secretly open a school; also a Turkish national named Ismail Haqqi was sent by Ahmad Kamal to open a school in Hetian, etc. In those schools some domestic and foreign forces propagated ideas of Pan-Islamism and Pan-Turkism, and selected and trained their agents.

2. Using religious activities to propagate ideas of Pan-Islamism and Pan-Turkism. There were imams teaching the scripture in all the cities, towns, and villages in Islamic areas of Xinjiang. Early this century this front was also exploited by some Pan-Islamic and Pan-Turkic forces.

In 1917 Yang Zengxin reported to the Internal Affairs Ministry that Turkish subjects were conducting rampant fomenting activities in the name of propagating the scripture, posing an unimaginable potential threat. The Internal Affairs Ministry returned a telegram the next year, claiming that it had been determined that the phenomenon of hiring Turkish subjects to teach the scripture was widespread across all the counties. It was also emphasized that "as Turkey and Germany are in an alliance and as China has declared war on Germany, Turkish subjects in Xinjiang will unavoidably carry out rampant cryptic fomenting activities in the name of propagating the scripture."<sup>8</sup> As shown here, the cryptic fomenting activities carried out by some forces in the name of religious activities had already produced some impact, arousing attention from the central and local authorities.

Without authorization, some mosques and scripture schools hired foreigners as Islam-propagating imams and teachers. Among those hired, some abused their forums and cryptically advocated evil ideas in the name of propagating the scripture and the Prophet's messages. Many of those who attended the scripture-propagating activities were seriously poisoned. In launching a rebellion in Kuche in 1918, Maimaitelihan [6314 6314 6993 0500 3063] and others spread a rumor about the reincarnation of Mohammed so as to incite the local Muslim masses to a rebellion. In addition they used the slogan of "get rid of the Hans,"<sup>9</sup> adopting an open anti-Han stand and openly trying to evict the Hans. They were intentionally trying to foment ethnic hatred and to destroy the historical tradition of hundreds or thousands of years of

the Uighur and Han nationalities's coexistence, coprosperity, and joint efforts to develop the border areas of the motherland as well as the profound friendship between the two nationalities.

3. Conducting propagating activities targeted at ordinary Muslims who went abroad on pilgrimage and who were worshipping at mosques.

Each year around 10,000 people from Xinjiang went to the holy place of Mecca on pilgrimage, travelling there through India or Central Asia. Some of those people would consciously or unconsciously come to espouse ideas of Pan-Islamism and Pan-Turkism, and bring back various books and journals; especially, those written in Turkish (the old script used before the reform) were mostly easily propagated and spread in Xinjiang. Some people also founded journals and wrote articles in Xinjiang. The aforementioned Ahmad Kamal first operated schools and published publications in southern Xinjiang, and then came to Urumqi where he on the one hand propagated Gasprinski's TERCUMAN, Jarullah's work *Uzun Kunlarda Ruza* (*A Young Man in the Long Days*) and others, and on the other hand devoted more energy to publishing the journal YENGI HAYAT, of which 30 issues were published. Ahmad Kamal himself said that the journal "has more directly, fervently, and candidly pointed out the way for Muslims."<sup>10</sup> As reported, at that time some people also founded the journal TURAN. In Xinjiang where there was a severe shortage of reading materials in the languages of the nationalities, the two journals produced unusual effects on Muslim youths. Also Chief Imam Abuduojiayida-maola [7093 0008 1122 0502 5902 1129 3029 2139] of Kashi requested several times for the permission to publish journals but the requests were rejected. Thus he put up handwritten propaganda posters in mosques, and read those posters to the masses, creating a large impact. Efforts were also made to print and circulate the book *A Concise Biography of the Prophet Mohammed* written in 1928 by Sabit Damullah (who became the prime minister of the illegitimate "Islamic Republic of Eastern Turkestan" in 1933).

In addition some foreign institutions and individuals and consulates of foreign countries in Xinjiang also mailed and sent propaganda material to some government officials. In 1917 Prefecture Administrator Zhu Ruixi of Kashi received letters and documents from foreign Islamic leaders, which urged Chinese Muslims to ally with Germany in the First World War. Surely such letters and documents were not just sent to Zhu Ruixi alone. In 1918 the British Consulate in Kashi sent to the county governments copies of the declaration by the governor of Mecca which called on the Arabs to shake off alien rule and achieve independence. All this constituted indirect and cryptic fomenting efforts targeted at the Muslim masses, and the intention involved was to create division and turmoil so as to harm the country.



### III

The infiltration of Pan-Islamism and Pan-Turkism into Xinjiang aroused attention from Yang Zengxin from the very beginning. In order to maintain social stability in Xinjiang and safeguard his position as the ruler as well as national security, he adopted some preventive, restrictive, and punitive measures, producing some effects.

First, during the First World War, Turkey sided with Germany and exploited Pan-Turkism in carrying out aggression against other countries. After China severed her diplomatic relations with Germany, Yang Zengxin gave even greater attention to the activities of German and Turkish subjects in Xinjiang. He ordered a check on German and Turkish subjects in Xinjiang, and took different actions on the different cases after facts were ascertained.

In 1915 Magistrate Xiao Jianzhang of Shufu County reported that Ahmad Kamal was serving as a teacher at Small Artush Village. Yang Zengxin immediately checked the person's background, and at the same time reported to the Foreign Ministry of the Northern Warlord Government. He argued that as the European war was now going on, Turkish subjects were enemy aliens, and that if strict preventive and restrictive measures were not taken, they would unavoidably try to confuse and poison the minds of local people. "This will not only have harmful effects on diplomacy but also unavoidably pose a potential threat to China."<sup>9</sup> Consequently he ordered the closing of the elementary school run by Ahmad Kamal, and imprisoned the people involved. Although the school was later permitted to operate, it was explicitly stipulated that there be no manifestations of loyalty to Turkey and that Chinese language courses be offered. After being imprisoned for two years in Urumqi, Ahmad Kamal was repatriated to Turkey via Shanghai in 1919. Those moves undoubtedly dealt a severe blow to the Pan-Islamic and Pan-Turkic forces which had infiltrated Xinjiang.

In August 1916 Magistrate Liu Rentan reported that a Turkish subject Yakefu established a so-called vocational school, again arousing vigilance on the part of Yang Zengxin. He issued to his subordinates an order that Turkish subjects be prohibited from being hired as teachers and that Turkish subjects be prohibited from opening schools. As a result the authorities banned all the schools in such places as Kuche and Turpan which had been found to be using foreigners to do the teaching.

In February 1917, after learning that the Chinese Government had severed her diplomatic relations with Germany, Yang Zengxin immediately ordered a check on Turkish subjects in Xinjiang. Those who were engaged in legitimate business activities were given effective protection after the number of people, the businesses in which they were engaged, and the amount of property were ascertained; those propagating and teaching the scripture were prohibited from serving as imams, but were to be given effective protection, and were barred from leaving

the country for the time being; as it was difficult to make sure that illegal businessmen and those who had, in an unauthorized manner, come to Xinjiang without tourist visas were not spies, strict precautionary measures were to be taken, and when necessary, it was permitted to detain those people, who would then be prohibited from leaving the country before their identities were ascertained. Yang Zengxin reported to the Internal Affairs Ministry, stating that if not being subjected to special restrictions, the Turkish subjects hired as imams in Xinjiang could pose a threat in various ways, and requesting that the Internal Affairs Ministry approve the continuation of the ban on Turkish subjects' propagating and teaching the scripture. The Internal Affairs Ministry returned a telegram to give its approval, while pointing out: "The matter involves local public order and is therefore not a light matter. It is necessary to conduct a check and impose a ban."<sup>10</sup>

In March Yang Zengxin gave his subordinates an order that if German or Turkish subjects were found in any place in Xinjiang, facts about them be ascertained, and they be detained on the spot and prohibited from having contacts with local people. At the time intelligence reports showed that seven Turkish subjects, carrying a huge amount of money, were going to travel from Gansu to Xinjiang in order to establish contact with Muslims. Yang Zengxin immediately sent telegrams to magistrates of the counties of Yanqi, Weili, Qiemo, and Ruoqiang, asking them to check the situation and take precautionary measures; at the same time he ordered a cavalry force led by Company Commander Zou Weixin to move from Korla to Ruoqiang, so as to prevent Turkish subjects from secretly travelling to Xinjiang from Dunhuang.

In April the provincial government instructed each of the relevant county magistrates in southern Xinjiang to submit a report on the number of Turkish subjects living in the county. It was emphasized that Turkish subjects should keep themselves engaged in their own businesses and be prohibited from travelling to all the places to get involved in fomenting activities. Those who had lived in China for many years and who had not violated the law should be regarded as local residents, and those who had not gone through the procedure for acquiring Chinese citizenship should go through such citizenship procedure now, thereby becoming permanent Chinese citizens.

Yang Zengxin's check on the Turkish subjects who lived permanently or temporarily in Xinjiang and the Turkish subjects whose identities were unclear and whose behavior was suspicious lasted two or three years, resulting in some crackdown and restrictive effects on the activities of some lawless elements.

Second, Yang Zengxin realized that Xinjiang was in a unique geographical position, and thus paid great attention to the influence on Xinjiang exerted by some Central Asian countries bordering on Xinjiang.

In 1916 Yang Zengxin said in his report to the Northern Warlord Government: "Xinjiang is alone, situated outside the Great Wall. It is bordered by Russian territories to the northeast and British India to the southwest. Without exception, there are foreign businessmen and residents in each of the 40 counties of Xinjiang. As many foreigners have come, any error in dealing with them would immediately lead foreign countries to intervene diplomatically."<sup>11</sup> An increasing number of foreigners, especially Turkish subjects and people of British India, entered the country from Afghanistan. In order to strengthen defense forces, Yang Zengxin decided to send forces stationed at the provincial capital to provide support. Thus as ordered, an army cavalry force led by Ma Fengzhang and Dou Juxu moved to Puli County (Tashkurghan), becoming a garrison force there. With regard to the aforementioned letters and documents that foreign Islamic leaders had specially asked people to deliver to the prefecture administrator of Kashi, he ordered that the delivery people, together with the letters and documents, be made to leave the country under escort. He also issued a document to the localities, asking them to try their best to collect and burn copies of the declaration by the governor of Mecca that the British had distributed in Xinjiang.

In 1918 Yang Zengxin issued an order, banning unauthorized establishment of places of worship and prohibiting foreigners from using religious activities in places of worship for carrying out sinister plots. At the beginning of the next year he also issued an order to prohibit foreigners from serving as imams, describing those Islam-propagating imams as a source of disturbances. Their activities both had a religious element and affected local public order. If the activities were not banned, the potential threats posed by them could not be eliminated.

Third, while precautionary measures were taken against foreign-originated ideas of Pan-Islamism and Pan-Turkism, coercive measures were taken against local people who had induced fomenting and deceptive propaganda from abroad.

In September 1925 Yang Zengxin instructed the prefecture administrator of Kashi to impose punishments on Bawuding and Yiming'ai of the local gentry, who had hired the Turkish subject Ahmad Kamal as a teacher; the next year Masud Sabri was arrested for operating a school in Ili to propagate splittist ideas and was sent to the provincial capital Dihua (Urumqi) under escort. He personally interrogated Masud Sabri three times; Masud Sabri was released after being detained for one year. Yang Zengxin used force to put down the rebellion which Maimaitielihan and others instigated in Kuche through using religious and ethnic slogans.

By openly resisting domestic and foreign hostile forces' efforts to carry out, through exploiting Pan-Islamism and Pan-Turkism, aggression against Xinjiang and activities of instigating the division of Xinjiang, Yang Zengxin both maintained his own position as the ruler and contributed to the unity of the country and unity

among the nationalities. Nevertheless he was just a feudal bureaucratic warlord, and it was impossible for the measures he adopted to fundamentally suppress the infiltration of Pan-Islamism and Pan-Turkism into Xinjiang. After his assassination in 1928, ideas of Pan-Islamism and Pan-Turkism got propagated in Xinjiang even more extensively because of the changes in the international situation, quickly getting Xinjiang caught in even greater turmoil.

#### Notes

1. Shaoyingbayefu [6730 5391 1572 5102 1133] (the Soviet Union), *Wei Zhengque Chanming Sulian Yaxiya Ge Zu Lishi Wenti Er Douzheng* (Struggle for the Correct Expounding of the Issues in the History of Asian Peoples in the Soviet Union), Chinese translation, Renmin Chubanshe, 1954, p 231.

2., 4. Bao Erhan Xuanji (Collected Works of Burhan), Minzu Chubanshe, 1988, pp 127, 128.

3., 8. Hamata Seibi (Japan), *The Spread of Nationalism in Xinjiang*. Forbes (Britain), *Warlords and Muslims in Chinese Central Asia*.

5. Bianshi Yanjiu (Border Affairs Studies), 1935, Vol 2, 3.

6., 7., 9., 10., 11. Yang Zengxin, *Buguoizhai Wendu* (The Correspondence of Yang Zengxin).

#### Xinjiang Miners Distressed Over Low Prices

94CM0190A Urumqi XINJIANG RIBAO in Chinese  
26 Jan 94 p 1

[Article by Ai Min (5337 3046): "State-Owned Coal Mines Distressed By Artificially Lowered Prices; Government Adjustment and Control Brings Hope of Alleviating Problem"]

[Text] Early in the morning of 14 January, I received a letter from Guo Zhimin [6753 3112 3045] of the Urumqi Bureau of Mining Affairs, No. 1 Coal Mining Area, Jiangou Coal Mine. In this letter, he related the living difficulties of coal miners. I reproduce some passages below:

"In this era of opening and reform, the domestic economy is increasing rapidly. Through 31 December (1993), our mine has had 1,373 continuous days of safe production, our No. 1 Coal Mining Area has had as much as 7,019 continuous days of safe production, and in addition, we have accomplished the entire year's assigned output 20 days ahead of schedule."

"However, in our coal mine it is hard to even pay wages, let alone give out bonuses. In 1993, there was no one in the entire mine who received full wages. The mine leaders decided to pay 90 percent (of their wages) to the first line workers who work underground, 80 percent to the second line workers, while they themselves received only 35 percent. In the mine's electronic section, supply section, and labor service company, not only were just 80

percent of the wages given out, they also only gave 100 people the wages of 90 people, leaving them to work out the shortages. How are they supposed to cope with this?"

"The problem is coal's lack of value. It now costs more than 71 yuan to produce one ton of coal, while it can only be sold at a fixed price of 67 yuan, so that producing one ton of coal causes the mine to suffer a loss of over 4 yuan. The more coal we produce, the greater the loss. We have heard that the prices of steel, wood, and cement—essential goods for mining coal—will rise in 1994, and that tax revenue will rise from (1993's) 2.17 yuan per ton to 13.6 yuan per ton. So the cost of producing each ton of coal will be up to 100 yuan. At that time, we fear that we coal miners will not have enough to eat."

"Everyone knows that a coal miner's work is very hard. While making more contributions to society, we hope that our lives will improve year by year along with the whole nation."

That same afternoon, I took the letter to the Urumqi Bureau of Mining Affairs, located in the city's suburbs. The leaders of the Bureau were not there, but the person in charge of the Planning Department was, and after reading the letter, said frankly that, "This matter of inability to pay wages is not just confined to the Jianguo coal mine. To some degree it exists in every one of the Bureau's coal mines. The major cause is the lower coal price for the State-owned coal mines. In 1993, the average coal price for the whole bureau was only 68 yuan, while the prices for the "three types of materials" needed for coal mining have been going up, the cost of maintaining and replacing coal mining facilities has risen, the level of charges by relevant industries and departments for producing and selling things linked to mining are also rising. These increases have pushed the per ton cost of to more than 90 yuan. When there is a major increase in the cost of production, while the price of coal is fixed and cannot be raised, it is inevitable that enterprises will suffer losses."

"It is not just our bureau: the entire coal enterprise industry is suffering losses. In the past, there was a State subsidy given to our State-owned key coal mines, more than 10 yuan for every ton of coal produced. With the key State-owned coal mines from throughout Xinjiang having an output of over 4.4 million tons of coal, the amount of the subsidy got up to more than 60 million yuan. Since 1993, the State has gradually relaxed the price of coal and reduced the subsidy, to push State-owned key coal mines to the market. Although these are good measures, much depends on how they are implemented. Look, the subsidy to our Bureau was cut by more than half, but the price of coal hasn't be relaxed completely. In addition, default payments are hard to get, many mine directors are very worried at payday, and even the cleverest housewife can't cook a meal without rice—one can't make bricks without straw." At the Bureau's Publicity Section, I saw the "Information Extracts Report" edited by the Bureau and issued on 7 January. The report listed the Bureau's debit account:

there was a debit of 9.32 million yuan for safe production facilities and equipment, a debit of 19.41 million yuan for developing production, a debit of 16.37 million yuan for construction projects, and a debit of 23.56 million yuan for staff and workers' welfare. The construction company attached to the Bureau was listed as in "extreme difficulties", with 80 percent of its workers paid only 75 yuan for living expenses in 1993.

On the afternoon of the 15th, I called at the office Li Yifan [2621 0111 0416], Vice General Manager of the Xinjiang Coal Shipping and Marketing Company, seeking his opinions concerning relaxing the price of coal. He said that it is imperative to relax the coal price in Xinjiang's State-owned key mines; this would be an important step towards putting enterprises onto the track of the market economy and to compete on an equal footing with local and privately owned coal mines. The mining affairs bureaus in Ningxia, Shanxi, Henan, and Xinjiang Hami have raised their coal prices from 20 to 30 yuan, but nothing has been done in the Urumqi Bureau of Mining Affairs.

"The Autonomous Region's government leaders care about reform in coal enterprises and the lives of coal miners." Vice General Manager Li told me that after repeated estimates, Vice Chairmen Wang Lequan [3769 2867 3123] and Wang Yousan [3769 2589 0005] have approved a 30 yuan per ton rise in the price of coal, which has brought it up to 98 yuan per ton since 1 January 1994. This will undoubtedly be good news for the Bureau's 12,000 coal miners."

Will the rise in coal prices affect the lives of the Xinjiang Autonomous Region's masses? Vice general Li's answer is, "The whole of Xinjiang produces over 22 million tons of coal every year. About one-tenth of this, about 2 million tons, is from the Urumqi Bureau. It won't have too much affect on the lives of the masses."

#### **Xinjiang Declining Cotton Industry Analyzed**

*94CM0190B Urumqi XINJIANG RIBAO in Chinese  
2 Jan 94 p 2*

[Article by Staff Reporter Liu Feng (0491 2800) and Correspondent Dong Feng (5516 1496): "Xinjiang's Cotton Industry—Where Is the Hope? Analysis and Summary of Xinjiang's Current Cotton Industry"]

[Text] Xinjiang's cotton industry, which had been brilliant, now faces the straits of a "cold winter." People look forward to the coming of spring.

The cotton industry in Xinjiang enjoyed a good time for production and sales in the eighties, making it one of the "three types of high" industries of high output value, high profit, and high income, and jumped to the status of one of the region's pillar industries.

The implementation of reform has pushed cotton industry enterprises into the market. Now the cotton industry is finding it hard to survive, lying where the



mountains and the rivers end—at the end of its resources, anxiously anticipating the coming of new hope. Looking at the regional cotton industry's output for January to September, the forecast for 1993 was for a 3.89 percent decrease from 1992. Among the major cotton products, estimates were that only 700,000 units of yarn would be produced, an 11.81 percent reduction from 1992; only an estimated 210 million meters of cotton cloth accomplished, down 6.51 percent from 1992, and at the level of a decade ago; only an estimated 39 million meters of printing and dyeing cloth, a reduction of 28.55 percent from 1992, and only slightly higher than the output of 30 years ago. Up to the end of September last year, the gross industrial output value achieved was 960 million yuan, a reduction of 19.13 percent for the same period in 1992. The cumulative loss for the cotton industry was 120 million yuan.

The cotton industry's fall from its previous brilliance to its current difficult situation is due to the following factors:

- The scale of the national cotton industry is too big, with gross supplies exceeding demand, so products accumulate badly. In 1980, China had 17.80 million spindles of cotton yarn; in 1990, this had increased rapidly to 42 million spindles of cotton yarn, while the practical demand was for just 27 million spindles. In the past decade, the spindles in storage occupied over 40 percent of the year's requirement.
- A heavy burden of "triple debt" and declining efficiency led to enterprises' shortages of operating funds. Based on Cotton Bureau statistics, cotton enterprises currently owe more than 300 million yuan to cotton and gunny companies for raw material, and owe over 500 million yuan to cotton plants outside the region. Combined with enterprise losses, it has led to shortages of capital, forcing some enterprises to stop or cut back on production.
- A lower level of equipment and production quality and standard. At present, the regional production scale is up to 100 thousand spindles, with only 4.6 percent having world advanced equipment, while 17.4 percent of them being equipments which should have been eliminated before the founding of new China or in the fifties. Enterprises lack staying power, and their products noncompetitive.
- There is a big shortage of transportation. Two-thirds of Xinjiang's cotton products are sold outside the region, which is about 120,000 tons of cotton products going out of Xinjiang every year. The market is focused chiefly along the Guangdong, Jiangsu, and Zhejiang areas; a shortage of railway cars makes transportation difficult, which seriously affects enterprises' production and sales.
- Unstable teams of enterprise staff and workers. Low economic efficiency causes low income among staff and workers, so there is a serious outflow of technical mainstays.

—A lot of work is urgently needed to bring a "brilliant spring" in the cotton industry.

One way of accomplishing this is through earning foreign currency by export. It is only by stressing the production of high standard, high quality, and high level products can enterprises create international markets. In 1993, as a new force suddenly coming to the fore, the Kuerle Cotton Plant did extraordinarily well in its pursuit of exports. From January to September, they exported 6,399 tons of cotton yarn, with an export value of 20.62 million yuan, which constituted 40 percent of Xinjiang's total. This greatly increased efficiency, and the 1993 forecast is for losses to be down 55 percent from last year.

Enterprises change patterns and styles in order to survive. The Shihezhi Bayi Wool Spinning Plant took the lead in establishing a new enterprise management guidance principle of "taking the market as the leading direction, taking sales as the head, taking efficiency as the focal point." They carried out self-decision operations, self-responsibility for profits and losses, and self-planned development, put over 40 million yuan into technology replacement, introduced advanced equipment, finally spinning 65-80 high-tech yarn, and a high-wool, light, thin, product of about 300g for the south China market. By developing new products, they created an output value of 139 million yuan from January to September last year, leading the enterprise onto a good circulation track.

Pay attention to the enterprise, dig out its internal potential, increase income while cost-cutting, reduce expenditures on raw materials, and realize efficiencies from basic enterprise management.

Favorable policies are sorely needed. For the cotton industry, Xinjiang has the obvious shortcoming of poor location, so it can compete with inland enterprises only through good quality and low price. Last year's cotton price rise no doubt was a case of "snow added to frost" for the cotton industry. The government should: extend favorable policies on technology replacement, loans, and investment; reform the cotton supply system, reducing middlemen by guaranteeing the supply of raw materials; and, in addition, absolutely prohibit price rises in cotton circulation links to help enterprises get through these difficult times and get on a good circulation track. If these things are done, for Xinjiang's cotton industry the snow will melt, the rains stop, the winds cease, and the spring breezes blow again.

#### **Xinjiang Fine Wool Industry Declines**

94CM0190C Urumqi XINJIANG RIBAO in Chinese

[Article by Staff Correspondent Yang Fan (2799 1581): "Concern for Decline of Fine Wool Production in Xinjiang"]

[Text] On 10 December 1993, I attended a forum held by the Xinjiang Bureau of Husbandry and which included

some experts on sheep raising. The experts who presented the forum expressed deep concerns about the current status of Xinjiang's production of fine wool, which has been in continuous decline in recent years.

In their introduction, relevant people explained that fine wool is chiefly used for supplying the raw materials in wool spinning. In the last two years, lower wool prices plus part of the wool being kept in storage has dampened the enthusiasm of local cadres and masses of herdsmen for producing fine wool. But on the other hand, mutton prices rose repeatedly in 1993. Because the cost of raising fine wool sheep is a bit higher than for local wool sheep, there appeared a trend of ignoring fine wool sheep production, even to the point of not buying male sheep for stud and rejecting artificial insemination. This caused a backward trend in varietal improvement while resulting in a great number of stud male sheep being in stock.

All of the sheep-raising experts making presentations were deeply upset about fine wool sheep suffering such cold treatment. Xinjiang has 40 years of history of improving fine wool sheep varieties, starting in the fifties, and it has reached today's level only after several generations' of hard work. Raising fine wool sheep is an industry of excellence in Xinjiang, and it holds first place nationally, regardless of whether one speaks of quantity or quality; if we lose this dominant position, the dominant position of Xinjiang's husbandry will be lost with it, and the region's wool spinning industry, with over 100,000 spindles will be in the bad situation of lacking raw materials.

Research Fellow Yang Erji [2799 1422 3444], formerly Assistant Director of the Autonomous Region's Institute

of Animal Husbandry, 1422 3444) believes that mutton production and fine wool sheep production should be given equal attention, with no partiality to either side. We must not lose confidence because of the current temporary slump in the wool market, but must take the long view. The wool spinning industry has developed very rapidly in China, with the nation having to spend \$600 million importing 150,000 tons of wool. This demonstrates that there is not too much, but far from enough. We should take development of fine wool sheep and protection of our national wool production as long term and difficult assignments for China and Xinjiang. Also, when we speak of increasing the quantity of mutton, doing a good job of raising fine wool sheep can be an important way of easing the demand for mutton in Xinjiang.

Of course, future development should pursue the goal of improving the quality of fine wool, or else a great deal of foreign wool will come in after we have joined GATT, and Xinjiang's fine wool will probably be defeated. We especially should popularize Chinese Meilinu sheep, setting out a goal higher than the more than one million Meilinu sheep which this established breeding system attained some time ago. Meanwhile, we should take full advantage of our natural grasslands for feed; strengthen feed supplements in winter and spring, taking crude feed as the major feed, cutting down on the use of fine feed to reduce feed costs for fine wool sheep. At the same time, we should grant such favoritism as a husbandry industry insurance system, a variety of tax rates, etc. Adopting these protective measures will reverse the declining situation of fine wool sheep production in Xinjiang in the fastest possible time, and create a wonderful future for fine wool sheep production.

**White Paper Termed 'Piece of Propaganda'**  
*HK2802055494 Hong Kong EASTERN EXPRESS*  
*in English 28 Feb 94 p 6*

["Two Kinds of Time" column by Jonathan Mirsky:  
 "White Paper Is Plain Propaganda"]

[Text] Imagine your average Legco member—like most of us averagely decent, averagely cowardly—with a corner of his or her heart in which he or she wants to do the right thing.

China, meanwhile, is huffing and puffing that it will blow Legco down in 1997.

Last Thursday, our modest hero heard Sir Percy Cradock say on TV that "Legco had signed its own death warrant" when it approved the first tranche of Chris Patten's bill.

Was this person, not to mention the umbrella mender and the cobbler in Sai Kung, really convinced by last week's White Paper on the 17 Anglo-British negotiations sessions? The British must hope so: they printed 140,000 copies in Chinese and 60,000 in English. But the White Paper is only convincing if, as a British official suggested last week, you take it on faith.

Suppose you are not a devout believer in Britain, often referred to here as "the two-headed snake"? Suppose you want to believe that Britain negotiated sincerely and that Beijing's men stonewalled, but suppose also that you need proof before you would be willing to enrage Beijing by voting for the rest of the Patten plan on July 6? There is no evidence in the White Paper; it is, frankly, a piece of propaganda. This does not mean it is a lie; it is like the statement of a lawyer who, though he must not commit perjury, is not required to make the best case for the other side.

British and Hong Kong officials seem insulted by the suggestion that the White Paper as it stands is no more to be relied on than the 10,000-word article that appeared in the PEOPLE'S DAILY on January 7, which gave China's side of the collapse of negotiations.

"You mean you think we're the same as the Chinese?" an incredulous official asked last week when I observed that I could not "believe" the White Paper. I meant of course "believe in".

When asked to supply documentation (there exists, after all, a nearly 1,000-page stenographic record of the 17 sessions), the official said: "But these are confidential diplomatic documents,"—as if publishing the White Paper has not already blown the roof off diplomatic niceties.

We don't need the full 1,000 pages. But where the White Paper makes its most telling charges of Chinese shiftiness or renegeing, our confidence would be boosted by verbatim quotes showing which Chinese diplomat said what, when he said it, and when he said the opposite.

Of course, some would say such quotes had been invented. But most people would not doubt such evidence, unless the Chinese produced their own and different stenographic record.

If that happened, it would only confirm what the White Paper and the PEOPLE'S DAILY accounts already indicate—that (as some British officials here now concede "in retrospect") there never was any common ground between the two sides, just a chasm between different goals and beliefs, which could be spanned only by flimsy bridges like agreement on lowering the voting age.

Showing extracts from the actual record would expose this chasm, which is far more important than proving bad faith. The bad faith, if it exists, is primarily a result of the chasm. What also hinders understanding is the way the government managed "to snatch defeat from the jaws of victory" (as one official put it) after the Legco vote last week.

By Thursday, many Hong Kong journalists—including those from the non-Communist Chinese press—were expressing scepticism about the White Paper. Those who asked for more documentation were treated as trouble-makers or eccentrics.

The official Hong Kong government press conference on Friday reminded some of us who have attended similar events in Beijing that 1997 is only three years away.

Chinese officials commonly preface their reply to a difficult follow-up question by saying "It is well known to all that..." and then repeating their earlier statements.

Last week in Hong Kong, senior officials—some wearing the same scornful looks on their faces one recalls from Beijing—also deflected questions by dismissing them as "speculation" or with curt instructions to "Read the Letters Patent".

This last came when the officials were asked under what circumstances Patten and Parliament could refuse to ratify Legco's vote in July, as Patten hinted last week he might, in some circumstances, regretfully have to do. What we were told was that it was "up to the people of Hong Kong", or, again, "Read the Letters Patent". Is this how the government plans to respond to Legco members who need to know what might happen if the council, for example, attempted to pass any of Beijing's proposals.

What came out last Friday should indeed worry the average Legco member.

He is pincered between Beijing's promise of revenge and the threat that Patten and Parliament may reject any bill that does not meet their purposes.

Appealed to for clarification, a Government House source sighed. "Oh God, the answer is so simple—the Governor is the Queen of Hong Kong."



**Editorial on White Paper on Sino-British Talks**  
*HK2502100994 Hong Kong HONGKONG STANDARD*  
*in English 25 Feb 94 p 2*

[Editorial: "The Future Is All That Matters"]

[Text] Now we know all about it. All the nitty-gritty of 17 rounds of Sino-British talks over eight months ending with barriers lowered on 30 June, 1997. No more through train, no smooth transition, perhaps no replacement airport until after the transfer of sovereignty, no new container port, no new highways into southern China, no recognition by the future government of the Hong Kong Special Administrative Region [SAR] of any contracts or international loans going beyond 1997.

All the details contained in 36 pages entitled Representative Government in Hong Kong, otherwise known as the White Paper on how the talks went.

A few points need to be stressed at the outset. Firstly, this is a British version of the talks. As such it is intended to serve British interests. Beijing has given notice that it will respond by publishing its own version. No doubt it will serve Chinese interests.

Secondly, by going public the British side has cast away the key to a reopening of the negotiations. Of course, the blame has been put on China: the People's Daily went public with a detailed version of the 17 rounds last month. But, no doubt, Beijing had read an equally authoritative blow-by-blow version in London's Financial Times weeks earlier. So much for confidentiality—both sides have been leaking like mad while trying to keep Hong Kong people in the dark.

Thirdly, this document is not all that it is made out to be. On the matter of functional constituencies, for instance, we are told the British were prepared to compromise. But we are not told what those initiatives were. That is just one example of details the British regard as unimportant for Hong Kong people.

Finally, how credible is this paper? The answer appears to lie in omissions and in details which have been glossed over.

Before the negotiations began and at the outset of the talks China had insisted on one condition: that there be no unilateral action on political reforms if the talks broke down. The whole world now knows that the original proposals are being pushed through the Legislative Council and the contents of the talks, at least the British side of it, are on display in this dreary and repetitive document.

We know from the Chinese side that the British at one point proposed a functional constituency for civil servants. This has been omitted. What else is hidden from Hong Kong people? It would also appear that the issue of appointed members to the district boards and municipal councils was more crucial than was made out to be [as

published] by the British while the negotiations were going on. It now appears to have been a major obstacle.

That Britain also wanted a say in the affairs of the future HKSAR government is irrefutable. What other construction is one to put on the admission that Britain wanted China to accept an agreed formula for the composition of the Election Committee as "the same model for the future selection and election committees for chief executives"? [sentence as published] China has long maintained that Britain has been manoeuvring to retain its influence, if not its power over Hong Kong after 1997. The document now confirms this.

It does not serve the interests of Hong Kong and its people to dwell on the past. The talks are over, there is no way to reopen them.

What matters now is the future. As we move towards 1997 the British will become more irrelevant with each passing day.

We must learn to take the long-term view and plan accordingly.

**Editorial Sees 'Hope' on Sino-British Cooperation**  
*HK2702084194 Hong Kong SOUTH CHINA SUNDAY*  
*MORNING POST in English 27 Feb 94 p 16*

[Editorial: "Encouraging Signs"]

[Text] It may be too early, but so far the signs are encouraging. Incredible as it might seem, if the past few days are any indication, Beijing looks like it has drawn a line under political reform and decided to allow cooperation to continue in other areas.

Although the most hardline of mainland officials continue to utter dire threats that the gazetting of the electoral bill will harm Sino-British relations on all fronts, this has so far not proved to be the case. Instead there was the incredible sight of Chinese negotiators giving ground over the size of their future naval base on Stonecutters Island, during last week's defence talks, even as Governor Chris Patten was announcing his decision to go it alone on political reform. Then there was the heartening declaration from Guangdong Public Security Bureau Chief Chen Shaoji that cross-border co-operation would not be affected by the row. Yesterday, Chief Secretary Anson Chan Fang On-sang even predicted that a date for further airport talks may be agreed this week.

That will be the acid test of Beijing's intentions. The wind can change very fast in Zhongnanhai, and Chinese leaders may yet decide they need to use all the weapons at their disposal to try and drive down public support for Mr Patten to encourage legislators to vote down his proposals. But, for the moment at least, China seems to have recognised the harm that could result to its and the territory's interests, in following a strategy of severing co-operation on all fronts. That means there can be

some hope that the years ahead may not be as rough as might otherwise have been expected.

### Editorial Praises Legislators' Approval of Reforms

HK2502100094 Hong Kong SOUTH CHINA  
MORNING POST in English 25 Feb 94 p 32

[Editorial: "Momentous Days"]

[Text] These are truly momentous days in Hong Kong. In spite of angry fist-shaking from that powerful neighbour across the border—and future sovereign—the Legislative Council [Legco] has approved the political reforms that pave the way for more democracy to come to the territory. The vote by all but a few voices in the early hours of yesterday morning will go down in history as a watershed. Councillors who made it possible in the full knowledge that they were doing what was best for the people, even though, if China carries out its threat, the worthy edifice they have now begun building will be destroyed in 1997, deserve great credit. Quite properly, there was some dissent but also, quite properly, the majority was vindicated.

Hong Kong's legislators are to be commended for a mature, responsible and fearless first step on the long and troublesome road of democratisation. There was a 100 per cent attendance for the debate that Beijing warned should not take place. Mr Patten, too, deserves a fair share of the praise. It is after all, his name which is attached to the reforms. He has defended them relentlessly and effectively both at home and abroad. Moreover, he possessed the courage and, it must be added, the sense to trust them in the hands of the legislature. That trust proved well-founded.

Now the twin pillars of Hong Kong's administration—Executive and Legislature—can face the uncertain future hand-in-hand. As Mr Patten noted yesterday, it was never the intention of the British to dump the reforms on Legco and then scarp (run away). Rather, what was being formed was a new partnership. The legislators who voted the way they believe their constituencies wanted have embraced that concept.

There is, however, a rather serious gripe with Mr Patten. He consistently reassured the legislators moved to support his reforms that there was no secret deal being hatched in Beijing. And he solemnly promised that a "full account" of the failed 17 rounds of talks with the Chinese would be published so they could see that was so. It is a shame that a week such as this should be so marred by the decision to publish only a "distilled" version of the negotiations. To be precise, the document summarises the content of the first 14 rounds of talks and then provides a detailed account of the last three. More disturbingly, only details of the final negotiating position of the British is included in the account of the last three rounds of talks. There is not even an intimation of the other options put forward but withdrawn or rejected.

Mr Patten, who on one hand saw fit to entrust Hong Kong's political future in the men and women of Legco, apparently decided, as one source suggested, that he did not want to "bombard Legco, the British Parliament and the people of Hong Kong with a barrage of papers".

The MPs in London may have found little to interest them in such a pile of documents, but Mr Patten should realise the people of Hong Kong would have no objection to being bombarded with paper if it is important to their future. And what can be more important than the content of secret talks carried out on their behalf with their future sovereign country? Surely they can decide for themselves whether they want to read the whole account or skip parts. An unpleasant suggestion could be leveled at the government that rather than "distilling" the contents of the rounds of talks, the result may have been to dilute or distort them. Furthermore, is not Mr Patten handing a propaganda coup to the Chinese? They have already provided a partial account of their version of the talks. Now they will have the opportunity to provide a fuller account no doubt differing from, and taking issue with, that of the British.

The unfortunate man in the street will be unable to decide which is the correct version. He will be aware, however, that the British baulked at giving him a "full accounting". He will undoubtedly wonder what has been left out.

It is to be hoped that in the days to come, the Chinese will accept that Legco carried out what it properly considered to be its duty and will react in a calm and thoughtful manner. Let us further trust that their response to the British publication of their account of the talks will be measured. Mr Patten delivered yesterday's document calmly. It was devoid of the vitriol or blame that may have been felt as talks ran frustratingly foul of success. Now is not the time for more bickering, recrimination or retaliation. Time has moved on. Hong Kong has moved on.

### Hong Kong Economic Report 18 Feb-4 Mar

HK0403114494

[Editorial Report] The following are summaries of media reports on economic developments in Hong Kong monitored by Hong Kong Bureau between 19 February and 3 March 1994. Source information is given in parentheses at the end of each item or is provided in the body of the item.

### HONG KONG INVESTMENT IN PRC:

#### Hong Kong Developer in Hubei Real Estate Projects

Coastal International Holdings, which has invested HK\$4.5 billion (Hong Kong dollars) in Chinese real estate, will join hands with Wuhan City's Urban Construction Commission to develop and redevelop 1,000 mu of land on both banks of the Han Shui. At present, Coastal International has three projects in Wuhan. Two

are in real estate and the other is a 400-million-yuan project to build three bridges, which are expected to be completed before the end of 1995. Involvement in this project gave Coastal International the opportunity to participate in the redevelopment of urban areas in Hankou and Hanyang, which are also in Hubei Province. (Hong Kong HSIN PAO in Chinese 20 Feb 94 p 2)

#### **Banker Views Effects of Real Estate Tax**

A series of tax system reforms, including the introduction of a value-added land tax, which China launched early this year has caused varying degrees of confusion which is of concern to the banking sector in Hong Kong. Analysts hold that recent changes in tax policy will have a great impact on foreign investors and have expressed their preference for a relatively long consultation and adaptation period, which they believe is necessary.

Wu Lianfeng, assistant general manager of the Nanyang Commercial Bank, noted that China is only now preparing to reform its taxation system after more than 10 years of implementing the reform and opening up policy. However, he also pointed out that the value-added land tax, the consumption tax, and other laws and ordinances introduced early this year only provide a framework and that many specific procedures need to be worked out and improved. He noted that different interpretations of the new laws and regulations by the central and local governments have already caused a certain degree of confusion and disorder in their implementation and have disrupted investment projects by foreign businessmen.

Chim Pui-chung, a member of Hong Kong's Legislative Council who represents the banking and finance functional constituency, also urged China to give consideration to foreign investors' legitimate interests while continuing to exercise macroeconomic regulation and control. He warned that as other Asian countries were making efforts to improve their investment environment to attract foreign investors, China should follow suit; otherwise foreign funds could move elsewhere. (Hong Kong ZHONGGUO TONGXUN SHE in Chinese 0908 GMT 21 Feb 94)

#### **Jialing To List Subsidiaries in Hong Kong**

Jialing, a Hong Kong-based company controlled by Sichuan Province, is restructuring its subsidiaries in an effort to list them on the Hong Kong Stock Exchange. Recently, Jialing has operated as a holding company and has filed an application with the mainland authorities to gain commensurate status there. Jialing's businesses cover import-export, equity investments in industrial and commercial enterprises, real estate investments, information services, securities, transportation, hotels, and the importation of capital and technology. Last year, 70 percent of its income came from real estate investments, mostly in Hong Kong. According to Jialing's chairman, Liu Guangbing, the company will increase investment in the mainland this year. (Hong Kong WEN WEI PO in Chinese 23 Feb 94 p C3)

#### **Denway Invests in Auto Component Plants in Guangzhou**

After investing 60 million yuan in the Guangzhou Battery Factory, Hong Kong-listed Denway Investment has announced that it will become a major shareholder in the Guangzhou Hua De Automobile Spring Company and the Guangzhou Juli Automobile Electrical Parts Company, holding 51 percent and 60 percent respectively. The joint ventures will produce suspension springs and ignition systems. The total value of the deals was 41.75 million yuan. According to Denway's general manager, Xie Gancheng, a feasibility report is being completed on increasing the firm's auto output by 100,000 units. At the moment, Denway produces 50,000 cars a year. Xie said the reason Denway had bought into the components factories was to increase the proportion of domestically made components used in its products and to supply components to other auto companies in China or to overseas buyers. (Hong Kong WEN WEI PO in Chinese 23 Feb 94 p C1)

#### **Hong Kong Firm Invests in Maoming Power Plant**

Hong Kong-based Chia Ho Ltd. has invested in a power plant in Guangdong under Maoming City's Electric Development Corporation and now holds two thirds of the shares at a cost of HK\$23 million. The term of the partnership is 35 years. This four-year-old power plant has eight generating units imported from Germany, with an installed capacity of over 50,000 kw. (Hong Kong TA KUNG PAO in Chinese 24 Feb 94 p 5)

#### **Cheung Kong Negotiates Shanghai Real Estate Deal**

Despite his stated concerns over China's new value-added land tax, Li Ka-shing's main property investment vehicle, Cheung Kong Holdings, is planning to enter the Shanghai residential real estate market with two projects worth an estimated 2 billion yuan. According to Feng Xie Kun, general manager of Shanghai Changning Urban Construction and Comprehensive Development General, Li is currently negotiating the details of the proposed development with the authorities in Shanghai. (Hong Kong EASTERN EXPRESS in English 28 Feb 94 p 32)

#### **Stanley Ho Threatens To Halt Mainland Investments**

Property developer and Macao casino operator Stanley Ho has threatened to stop investing in the Chinese real estate market if the capital gains tax on property is implemented. Ho issued the warning at a foundation-laying ceremony in Shanghai on 26 February for his Shanghai Plaza development, an office, residential, and hotel complex. Shun Tak Holdings, which is controlled by Ho, has a 15-percent stake, and one of his private companies has 20 percent of the 8-billion-yuan project, which comprises five 31-story blocks, a shopping and entertainment center, and a five-star hotel. "If the tax is implemented, I will not be interested in further investment," Ho said in reference to Beijing's new value-added land tax, but he added that his existing projects on the



mainland would proceed as scheduled. (Hong Kong EASTERN EXPRESS in English 28 Feb 94 p 31)

#### **China Overseas To Invest in Guangdong Power Plant**

The Hong Kong-listed China Overseas Development Company Ltd, a wholly owned subsidiary of China State Construction Engineering Corporation, is planning to invest \$117 million in a thermal power plant project in Shaoguan City, Guangdong Province. The plant, Shaoguan City Pingshi Power Plant (B Factory), is a joint venture with the Shaoguan City government and the Shui Heng Development Company Ltd, who hold 25 percent and 22.5 percent respectively. The joint venture has a 20-year operating franchise for the plant. (Hong Kong HSIN PAO in Chinese 1 Mar 94 p 5)

#### **Mainland Firms Sell Stake in Container Terminal to Swire, P&O**

The China Merchants and Steam Navigation Company and the China Ocean Shipping Company (COSCO) have sold 50 percent of their shares in Shekou Container Terminal (SCT) to P&O and Hong Kong's Swire Group for HK\$615 million. From 28 February, SCT will be directly managed by the British-owned P&O. A spokesman for SCT said that the transaction was aimed at introducing advanced foreign management and technology to position SCT for the development of a market economy. P&O and Swire each hold 25 percent and China Merchants and COSCO have 32.5 percent and 17.5 percent respectively. SCT maintains regular international routes connected with mainland ports and can handle 67,000 containers. (Hong Kong WEN WEI PO in Chinese 2 Mar 94 p A7)

#### **China-Owned Firm Taps Syndicated Loan Market**

Top Glory Holdings, a wholly owned subsidiary of the China National Cereals, Oils, and Foodstuffs Import and Export Corporation (CEROIL), has tapped the Hong Kong syndicated loan market for the first time to raise \$46 million. Top Glory's managing director, Zhou Biquan, said the company had learned to use external sources of funds for working capital. Incorporated in Hong Kong in 1981, Top Glory's activities span trade and shipping, finance, property development, and hotels. Its parent company, CEROIL, comes under the jurisdiction of the PRC's Ministry of Foreign Trade and Economic Cooperation. Mr. Zhou said the funds raised would be used to develop its food business in China. The 28-month loan facility, at 1.25 percentage points over LIBOR, was arranged by Standard Chartered Asia, and co-arranged by Credit Suisse, KEB (Asia) Finance, and Sanwa Bank. (Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English 3 Mar 94 P 1)

#### **Swire To Raise Stake in China Coke Venture**

Swire Pacific has announced plans to reorganize its Coca-Cola bottling operations in China. Swire and the Coca-Cola company have restructured their respective

shareholdings in the their joint ventures and are developing new bottling operations in China, Hong Kong, and Taiwan. Swire Beverages will hold 100 percent of Swire Bottlers in Hong Kong and 85 percent of BC Development Company, the holding company for Coca-Cola bottling operations in Nanjing, Hangzhou, and Xian. The deal includes an agreement in principle for Swire Pacific to be appointed as the Coca-Cola bottler in the cities of Zhengzhou and Hefei, which would cover Henan and Anhui provinces. Two months ago, Swire announced its intention to acquire 25 percent of BC Development from China International Trust and Investment Corporation. (Hong Kong EASTERN EXPRESS in English 3 Mar 94 p 26)

#### **PRC INVESTMENT IN HONG KONG:**

China Overseas Development Company Ltd is expanding its property interests in Hong Kong. By late 1993, it had participated in 19 projects, investing HK\$4.6 billion and controlling 4 million square feet of floor space. The president of China Overseas said that while Hong Kong remained the focus of its real estate development business, the company was diversifying, as indicated by its investment in the Shaoguan Power Plant project. (Beijing ZHONGGUO XINWEN SHE in Chinese 0734 GMT 1 Mar 94)

#### **OTHER ISSUES:**

##### **Taiwanese Investment in Hong Kong Triples in 1993**

Statistics released in Taiwan indicate that the gross volume of mutual investment between Taiwan and Hong Kong from January to November last year amounted to \$311 million, with Taiwan's investments in Hong Kong totaling \$162 million, an increase of \$103 million over the same period of 1992 or nearly triple that of 1992 figure. The Mainland Affairs Committee pointed out that the increase was mainly because Taiwan's banking, financial, and securities sectors has increased investment in Hong Kong last year. In 1993, Hua Nan Commercial Bank and the Bank of Taiwan received permission to upgrade their offices in Hong Kong to full-branch status, China Trust Bank and the Medium Business Bank of Taiwan established offices in Hong Kong, and securities broker such as Taiwan Securities, Jih Sheng, and Ching Hua started operations in Hong Kong last year.

A survey by the Mainland Affairs Committee disclosed that some Taiwan-based enterprises plan to list their shares on the Hong Kong Stock Exchange, raise capital, or establish holding companies in Hong Kong. The committee predicted that Taiwanese businessmen will continue to expand their operations in Hong Kong. (Hong Kong ZHONGGUO TONGXUN SHE in Chinese 1142 GMT 28 Feb 94)

**Hong Kong Economic Report 5-19 Mar**  
**HK1903044094**

[Editorial Report] The following are summaries of media reports on economic developments in Hong Kong monitored by Hong Kong Bureau between 5 March and 19 March 1994. Source information is given in parentheses at the end of each item or is provided in the body of the item.

**HONG KONG INVESTMENT IN PRC:**

**Hong Kong Dominates Foreign Investment in Beijing**

By 5 March, Beijing had approved 7,521 foreign funded enterprises of all types with contracted foreign investment of \$18.5 billion and realized foreign investment of \$10.24 billion. Hong Kong interests were represented in 3461 enterprises, with a total capital investment of \$5.76 billion. Taiwan investors provided \$878 million in 948 enterprises. Together, Hong Kong and Taiwan investors accounted for 58 percent of foreign investment in Beijing. (Beijing ZHONGGUO XINWEN SHE in English 0808 GMT 5 Mar 94)

**Kerry Group Invests in Shanghai Hotel Project**

The Kerry Group, which is controlled by Malaysian Chinese billionaire Robert Kuok, has signed a lease in Shanghai involving 15,000 square meters of land worth approximately \$76 million. The group also plans to invest \$230 million to develop the Jingan area of Nanli. The total area under construction is approximately 106,000 square meters, on which a 800-room five-star hotel and a 29-story apartment building will be built, with a 36,000-square-meter shopping mall underneath. In November 1993, the Kerry Group signed a contract to construct a 27-story grade-A office building and a 15-story residential building in Beili. Nanli and Beili are located at the juncture of Nanjing Xilu and Tongren Lu, opposite the Shanghai Commercial Plaza and the Portman Shangri-la Hotel. The Nanli project is slated for completion in 1998. (Hong Kong TA KUNG PAO in Chinese 5 Mar 94 p 5)

**Yao Group To Invest 600 Million Yuan in Sichuan Development**

The Yao Group is planning to develop 100 hectares of land on Fengzhou Island, Leshan City, Sichuan Province. The first phase of the project will create a Buddhist cultural zone with residences for worshippers, villas, hotels, and apartments. In contrast, the second phase will be a modern entertainment zone where a recreation center, fun fair, and casino will be built. The third phase will be a complex incorporating sports facilities and housing. The total proposed investment is 600 million yuan. (Hong Kong HSIN PAO in Chinese 11 Mar 94 p 23)

**Hong Kong-Based Funds Invest in China**

More investment funds are being established in Hong Kong to facilitate investment on the mainland. Taiwan's

Jun Tai Group and the Shanghai International Trust and Investment Company are organizing a "Shanghai Development Fund" with \$150 million to invest in enterprises in Shanghai; the U.S.-based Boston Pacific Technology and Investment Fund is cooperating with financial organizations on the mainland to set up funds to invest in projects in Shanghai; and the U.S.-based multinational GE Financial Services has joined other companies to promote a \$50-million China Industrial Investment Fund. In addition, a China fund aimed at investing in high-tech projects is likely to be established this year, while 34 state enterprises and financial organizations on the mainland are discussing the idea of establishing a "Chinese Enterprises Development Fund" in Beijing with a Hong Kong company. (Hong Kong ZHONGGUO TONGXUN SHE in Chinese 1020 GMT 15 Mar 94)

**Li Ka-shing To Invest in Beijing Hotels**

According to a source in Beijing, Li Ka-shing is negotiating to establish joint ventures involving two of Beijing's oldest hotels, the Minzu and Yanjing hotels. The Minzu has 600 rooms and the Yanjing has 557, and Mr. Li is planning to take a substantial equity stake in both hotels, which would be refurbished and upgraded. The likely vehicle for the hotel projects is the recently established Hutchison International Hotels, which comes under the ambit of Mr. Li's Hutchison Whampoa conglomerate. (Hong Kong SOUTH CHINA SUNDAY MORNING POST (SUNDAY MONEY) in English 13 Mar 94 p 1)

**Hutchison To Build 12-Billion-Yuan Power Plant in Shenzhen**

Hutchison Whampoa will build, operate, and transfer a thermal power plant outside Shenzhen, according to an agreement signed with the Shenzhen Electricity Bureau. Total output from the first phase of the proposed plant will be 2540 megawatts. According to Shenzhen Vice Mayor Li Guangzhen, the Eastern Power Plant will be developed in several phases and will involve a total investment of 12 billion yuan. Li Guangzhen's assistant, Li Janguo, said an agreement had been signed with Hutchison earlier this year and site preparation work had already begun. (Hong Kong HONG KONG STANDARD (FINANCIAL REVIEW) in English 16 Mar 94 p 1)

**PRC INVESTMENT IN HONG KONG:**

**FEATURE: PRC-Funded Firms Boost Booming Real Estate Market**

As Hong Kong office and residential real estate prices reach further heights, with the territory projected to overtake Tokyo as the most expensive business center in the world, two Chinese officials have voiced concerns over the activities of PRC-funded enterprises in the Hong Kong real estate market.

On 17 March, EASTERN EXPRESS reports on page 26 that a new study by realtor Jones Lang Wootton (JLW) points to further rent rises and rising capital values in all areas of the Hong Kong real estate market. The report

states that with chronic shortages of Grade-A office space, especially in Central district, and an equally serious supply crunch in terms of high-end accommodation to house incoming executives, office and residential rents are set to surpass Tokyo. The JLW study says commercial and office rents rose 40 percent in 1993 and rose another 10 percent in the first two months of 1994. Residential rents also surged, with rents rising by between 30 and 70 percent depending on the quality and location of the accommodation. JLW credits mainland-backed investors with a 23.2-percent share of the HK\$57.5 billion of identifiable real estate transactions in 1993.

The role of PRC-funded firms in stoking the Hong Kong real estate market has attracted the scrutiny of Chen Yuan, vice president of the People's Bank of China and son of elder leader Chen Yun. A report by the Beijing-based press agency ZHONGGUO XINWEN SHE at 1442 GMT on 17 March cites Chen Yuan declaring his opposition to speculative activities in the market by PRC-funded organizations. Highlighting concerns that badly needed capital is being diverted from China to earn quick profits in Hong Kong, Chen Yuan stated that China faced a shortage of foreign exchange and construction capital, and he had a "disapproving attitude" towards PRC-funded entities speculating in the Hong Kong real estate market. However, Chen Yuan said that it was normal for PRC-funded enterprises in Hong Kong to buy office buildings and residences for their staff, adding that the Bank of China ran its banking business in Hong Kong independently, determining its scale of mortgage lending according to the market situation. Chen Yuan also noted that the People's Bank of China was not paying any special attention to the issue.

Meanwhile, Lu Ping, director of the State Council's Hong Kong and Macao Affairs Office, has also commented on the role of PRC-funded companies in the real estate market. Speaking to a group of Hong Kong delegates to the National People's Congress, ZHONGGUO TONGXUN SHE in Chinese at 1400 GMT on 17 March reported Lu Ping saying that China-funded enterprises should refrain from actions detrimental to Hong Kong's prosperity and stability. Expanding on this, Lu said that these firms should not engage in real estate trading activities and that, as they were using state funds, they had an unfair advantage over other market players.

#### OTHER ISSUES:

**Golden Resources Sets Up Rice Processing Venture in Vietnam**

Golden Resources Development has taken a 55 percent stake in a \$10 million joint venture in Vietnam to process and trade rice. Hong Kong's biggest rice distributor has signed a 50-year joint venture agreement with the four major rice producing provinces in Vietnam: Long An, Dong Thap, Tien Giang, and An Giang, which together account for 40 percent of the country's production. Vietnam's trade representative in Hong Kong, Huynh Minh Hue, said the venture was the largest of its kind so far. Golden Resources' share of the investment would be used to build a processing plant and to provide working capital. The managing director of Golden Resources, David Lam, said the company hoped to raise the quality of Vietnamese rice, so achieving higher prices on the world market. (Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English 8 Mar 94 p 3)



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